

MODERN TARIFF HISTORY

GERMANY—UNITED STATES—FRANCE

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TO MY WIFE
DORIS

PREFATORY NOTE

THE first edition of this book, published in 1904, was based upon lectures delivered to the students of the London School of Economics and Political Science in the course of that year. They were an attempt to provide a brief and, so far as possible, unpartisan sketch of the development of tariff policy in Germany, the United States, and France, and of the forces, political and economic, which have determined its course.

The opportunity offered by a second edition has been utilised for an extensive revision. Besides the correction of some errors, typographical and other, the statistics have been re-cast and extended; some additions have been made to the original narrative and the foot-notes; further references have been added, and the bibliographies enlarged. Moreover, since 1904 there have been important developments of tariff policy in all three countries: the new German Commercial Treaties and Tariff entered into effect in 1906, the United States Tariff was remodelled in 1908, and a new French Tariff has come into force in the present year. Fortunately the proceedings in all these cases have taken

place in full publicity—this was especially so in regard to the tariff revisions in the United States and France—and it has consequently been possible to give in additional chapters some account of these developments, recent as they are.

It is hoped that in its new form the work may prove to have retained its original character, and to be even more useful to students of economic problems.

P. A.

LONDON,
April, 1910.

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PART I

GERMANY

MODERN TARIFF HISTORY

CHAPTER I

THE FORMATION OF THE ZOLLVEREIN

AT the close of the Napoleonic wars Germany was in a state of the utmost political and economic confusion, and the Congress of Vienna did little to remedy the evil. It gave the new Germanic Confederation a constitution vague and impracticable, and it offered no effective means of dealing with the most pressing problem, that of economic reorganisation. One of the worst results of German particularism was the existence of a separate customs system in each of the thirty-nine states, many of them very small, which composed the Confederation; and, moreover, commerce was hampered in every conceivable way, not merely within the boundaries of the Confederation, but also within the larger of its constituent states, such as Prussia. In that kingdom there were nearly sixty different local tariffs with a total of nearly two thousand eight hundred classes of goods:¹ in

¹ Zimmermann, i. p. 1.

some of its provinces, particularly in the western part of the monarchy, the importation of foreign manufactures and products was allowed free or on payment of only moderate duties, in others it was either absolutely prohibited or subject to extremely heavy duties. The multiplicity of customs barriers made administration costly and inefficient, and there was much petty smuggling.¹

The first reforms came in Prussia with the Tariff Act of 1818. Its authors—Bülou, the Minister of Finances, and Maassen, who was responsible for the details of the tariff—were greatly influenced by the economic ideas of Adam Smith, which were at that time making their way in Germany; the internal customs barriers were abolished, and the whole tariff policy reformed in the direction of the establishment of greater liberty of trade and commerce. Under the new system the importation of raw materials was to be free; an average duty of 10 per cent. was imposed on manufactured goods, whilst “colonial produce” and wine were to pay up to 30 per cent.; and there were to be moderate duties on the transit of goods passing through Prussia to other states. The general level of duties was somewhat higher in the eastern provinces than in the western. There was also to be an excise levied on the consumption of certain goods in Prussia itself. The tariff so adopted was more liberal than any continental tariff of the time, and in some ways the new

¹ Bowring, p. 2.

policy was more advanced than that even of Great Britain.¹ Germany was predominantly agrarian, and the north-eastern part (the country of the great land-owners) in particular exported considerable quantities of agricultural produce to foreign markets. A considerable part of the agricultural population of Prussia was therefore directly interested in the promotion of foreign trade, and so were also the coast towns on the Baltic with their extensive carrying trade. Manufactures were developing slowly; they had received some stimulus from the "continental system" of Napoleon, but the new tariff gave only a moderate protection to the home manufacturers, who were by no means satisfied with it; and it contained no prohibitions of import except in regard to salt and playing-cards, which were Government monopolies. It had one peculiarity—the new duties were not levied on the value of the imported goods, but consisted of a fixed charge on a given weight or measure of each commodity. These "specific" duties were at first on the average about 10 per cent. on the estimated value of the goods, and remained not at the same percentage, but at the same actual amount, whatever changes occurred in respect of the value. This procedure had the advantage of simplicity; it was not necessary to

¹ Schmoller, *Grundriss*, ii. p. 611, observes that such a reform was rendered possible only by the fact that Prussia was then an absolute monarchy; in a constitutional state the protectionist influences would have been too strong. He ascribes the new policy to the position of foreign affairs, which rendered anything like a tariff war inadvisable; a desire to avoid causes of friction with the other German states; financial needs; and the influence of the new economic ideas.

provide a staff of expert valuers at all the customs stations. On the other hand, there was the distinct disadvantage, which later was severely felt, that there came to be no particular relation between the value of the commodity and the duty; if the value of the given quantity of a particular article declined for any reason, the old duty might become extremely heavy; whilst, on the other hand, if the quality improved, and with it the value, the duty became proportionately so much smaller. So that the duties tended to become much more protective for goods of inferior quality than for the better class of commodities.¹

The new tariff came into force on January 1st, 1819, and in the same year a policy was inaugurated which was destined to have the most far-reaching results. In the kingdom of Prussia there were no less than thirteen "enclaves,"—petty states or parts

¹ In the report of Dr. (afterwards Sir John) Bowring, who visited Germany to report on the Zollverein to the British Government in 1840, it is stated that the effect of the fall in prices since 1818 and of some increases of duty had been to make the duties on some kinds of manufactured goods anything from 20 to 100 per cent., so that in some cases they became absolutely prohibitive. These duties had come to be higher on goods of coarse quality than on fine qualities; the actual duties on cotton goods varied from 30 to 120 per cent., and on some classes of woollen goods from 20 to 50 per cent. (pp. 3, 53, and 279). Friedrich List welcomed this effect of the Tariff, because it gave protection to "articles of common use, which every land can best manufacture for itself, and of which the home manufacture, on account of its great amount, is most important for the country" (Schippel, p. 86; cf. also Schmoller, *Grundriss*, ii. pp. 6, 12). This system has been commonly adhered to throughout German tariff legislation, as in Great Britain since the middle of last century, mainly because of its superior administrative advantages. For an account and criticism of the alternative method of *ad valorem* duties, see pp. 198–9 n., and 272–4.

of states completely surrounded by Prussian territory. All of these attempted to maintain customs systems of their own, and as a result came into sharp conflict with Prussia, whose new tariff with its reformed and strict administration against them roused considerable indignation in Germany. It was, however, impossible for them permanently to resist the pressure, and in 1819 the little principality of Schwarzburg-Sondershausen accepted Prussia's offer to take over the administration of its customs, and in return to give it the right of trading with Prussia free from all restrictions, and a proportion of the total joint customs revenue. But the particularist sentiment ruling in most of the German states was in general strongly hostile to such a course, and it was only very slowly that the other enclaves followed the example; in fact, the next instance was not till 1822.

The policy of Prussia, as exemplified in the agreement with Schwarzburg-Sondershausen, was to take the absolute control of any union which might be formed; but it was quite evident that, whatever the small states might do, the larger states would not agree to any such arrangement. All clung to their independence; the small states would not subordinate themselves to the larger, save under compulsion, and scarcely any state was willing to consider the economic interests of the whole Confederation as superior to its own private aims; there was, in fact, an incessant commercial and industrial war. But already there were signs

that the people were becoming weary of these conditions. Early in 1819, Nebenius, an official of Baden, issued on behalf of his Government a memorandum on the economic condition of Germany. He pointed out that, though that country suffered from the tariff systems of its neighbours, it suffered still more from the commercial policy of its own component states; the only real remedy was the formation of a league of the German states, the abandonment of their protective policy against each other, and the adoption of a common tariff against foreign countries. At the same time, it would be necessary for the German states to bring their systems of internal taxation into something approaching uniformity. It is this memorandum which has given Nebenius the credit of being the father of the idea of the later Zollverein, but the idea was not confined to him. In April, 1819, a deputation of manufacturers and others, chiefly from the South German states, appeared at the Federal Diet to urge the adoption of a similar policy: that deputation represented a commercial and trade union, which had been formed two or three years before, largely under the leadership of Friedrich List, and, unlike Nebenius, it was avowedly protectionist in the interests of German industry. Unfortunately, the Federal Diet was hopelessly weak, and exercised practically no influence on the policy of the various states; it could do nothing in the direction proposed, and reform had to come in another way.

The southern states set to work to attain the desired end by treaties among themselves; it was absolutely necessary for them to do something, since they were harassed in the north by the growing Prussian Union and in the south by Austria—both with their transit duties. So there began a series of conferences between the southern states at Darmstadt during the years 1820 to 1823 on schemes to resist Prussia, and to combine on a common tariff policy—conferences which had no practical result, but at their close “offered foreign countries a new and pitiable picture of German confusion, and of the triumph of petty particularist interests over the common good.”¹ The failure of the conferences was followed by a new tariff war in Southern Germany, and such a condition of affairs could not long continue. Württemberg in particular was untiring in its efforts to improve the situation; it called a fresh conference at Stuttgart (1823 to 1825), which was again unsatisfactory and produced no immediate result. Recourse was then had to separate treaties. Already in 1824 an agreement had been made between Baden and Hesse-Darmstadt, and also one between Württemberg and the Hohenzollern principalities in its midst. Early in 1825 Württemberg and Bavaria had agreed on a scheme of Customs Union under joint administration, and they now tried to get Baden, Hesse, Electoral Hesse and Nassau to join them. These negotiations failed, but in

¹ Weber, p. 34.

April, 1827, a provisional agreement, confirmed and completed in January of the following year, established a Union of Bavaria and Württemberg on the basis of a common tariff, abolition of duties on commodities passing between the two contracting countries, joint administration of the customs, and division of the net proceeds of the duties according to population.

Prussia had not failed to follow the course of these negotiations, or to learn the lesson which they taught. Until this time, it seems that the Prussian statesmen had not thought of a larger union, except (as already indicated) in the form of a customs system under the direction of themselves alone. They had treated the other enclaves, which had united with them—Schwarzburg-Rudolstadt, Saxe-Weimar, Lippe, Mecklenburg-Schwerin—just as Schwarzburg-Sondershausen; the small states were given no share in the management of the Union. “In the south, on the other hand, Bavaria and Württemberg had fully realised the idea of a union with equality of rights for all its members, including independent administration and complete reservation of all individual rights, without prejudice to the necessary unity of the whole and to the common end in view. Clearly this system must commend itself to the Governments of the minor states rather than the Prussian plan, which involved some loss of independence.”¹ The Prussian rulers saw the danger, and changed their policy.

¹ Weber, p. 61.

THE MIDDLE GERMAN UNION

In February, 1825, less than a month after the completion of the treaty between Bavaria and Württemberg, and largely because of that treaty,¹ an agreement was made between Prussia and Hesse-Darmstadt, which laid the foundation of the later Zollverein. No changes were to be made without mutual consent, and Hesse kept control of the customs administration within its own area.

Events now moved rapidly. In August, 1828, some of the minor states, including Hanover, Brunswick, and the two Hanse towns, Hamburg and Bremen, formed a Middle German Commercial Union, under the leadership of Saxony, chiefly to resist the pressure of the two existing unions. But the new organisation was inchoate and short-lived; it had no definite policy or purpose beyond that of resistance, and found no means of reconciling the interests of its constituent members. In fact, the small states were in an impossible position, and their difficulties were intensified when in May, 1829, an agreement was made between the Prussian Union and Bavaria and Württemberg, on the basis of reciprocal reduction of duties to the extent of 20 to 50 per cent. on many commodities, the approximation of the two customs systems to a common form, and yearly conferences. The Middle German Union was breaking down; its

¹ "The political purpose had triumphed over the fears of the Prussian financiers, for, shortly before, on the 18th of January, Bavaria and Württemberg had finally completed their Customs Union" (Zimmermann, i. p. 53).

members were showing an inclination to draw near to the Prussian Union or the Southern Union, as suited them best, and in 1830 Saxony intimated to Prussia its desire to enter into negotiations for its entry into the Prussian Union. The collapse was completed when Electoral Hesse joined Prussia in 1831—an event of considerable importance, since the geographical position of that state between the western provinces of Prussia and Hesse-Darmstadt could establish or prevent the real effectiveness of the commercial alliance of these two. The Northern and Southern Unions now drew together, and the final negotiations commenced. They were most delicate and difficult, for there were many diverse interests to be reconciled. In Prussia itself, the sea-towns and the agricultural provinces were favourable to freedom of trade, and the manufacturers desired protection; the former, however, had the upper hand. The northern states of Germany, and especially the Hanse towns, supported the liberal policy; and so did the great commercial centre of Frankfurt-on-Main. In Saxony, the traders of Leipzig inclined towards union with Prussia, since they sympathised with the ideas which underlay her tariff;¹ the manufacturers there were dissatisfied with the amount of protection which the Prussian tariff offered, though there was the compensating advantage of the open-

¹ In 1822 the inequality of the duties in the eastern and western provinces of the Prussian monarchy had been practically abolished, and the duties themselves reduced. Further reductions had been made in 1825 and 1828 (Bowring, pp. 13-14).

ing of the Prussian market for their products. The southern states were divided in the same way. Moreover, the manufacturers of Prussia felt that they would be seriously menaced by the increased competition, on equal terms, from the industries of Saxony for example, which must follow a complete union. The division to be made of the proceeds of the tariff was also a difficult matter, for the consumption of "colonial produce" per head was much greater in Prussia than in the south; and further, some of the smaller states were strongly averse to the surrender of any sovereign rights.¹ The Prussian ministers were by no means optimistic, but the negotiations were carried to a successful issue, partly because of economic considerations, and partly because political motives on the part of Prussia made her conciliatory—these latter were in fact the determining consideration.² The work was done by Maassen, now Minister of Finance in

¹ It is curious to observe how indifferent Austria was to these negotiations; Metternich and his colleagues did not regard them as dangerous, and did not believe that they could be successful. They might possibly have drawn the southern states towards Austria by commercial treaties, but the efforts which they made in this direction were scarcely serious, and altogether ineffective. Great Britain, on the other hand, was fully alive to the danger which threatened her position in the German market, and attempted to check the formation of a great German customs area by treaties with various small German states. The treaty completed with the free city of Frankfurt did for some time prevent that city from joining the Zollverein. France made a number of attempts to detach the smaller states, especially those along the Rhine, by the offer of special tariff treatment, but without success (Weber, p. 105).

² "The anxiety of the economist had been forced to yield to the hopes of the statesman" (Von Treitschke).

Prussia, and Von Mieg, who represented Bavaria and Württemberg. On the 22nd of March, 1833, Bavaria and Württemberg joined the Prussian Union, and the example was immediately followed by Saxony.¹ Negotiations had meanwhile been going on with Hesse-Cassel and the Thuringian states, and in May of the same year they also gave their adhesion.

The Zollverein, so formed by a series of treaties, and including seventeen states with a population of some twenty-three millions, came into force on January 1st, 1834. Policy was to be determined from time to time by an annual meeting of representatives of the constituent states, but any change required unanimous approval; this (though probably unavoidable in view of the tenacity with which the several states clung to their independence) was one of the weak points of the organisation—a proposal, approved by all the states chiefly concerned, might be vetoed by one of the least important members of the Union. A common tariff (based in the main on the rates in force in Prussia) against all states outside the Union, and the abolition of all duties on goods passing between the various members,

¹ "In fact, Saxony had scarcely any course to take but to join the Union. She had lost many of her richest provinces by the peace; she was hemmed in by unfriendly tariffs; her manufacturing population found insufficient outlets for their productions" (Bowring, pp. 33-4). "On the whole, Saxony is the portion of Germany which has most profited by the Commercial League, for in Saxony manufacturing industry was most developed, and in the competition with other states of the League Saxony had the vantage-ground. To her especially it has opened a market of 26,000,000 of consumers, and closed the gates to a great extent against foreign rivals" (*ibid.*, p. 37).

were the fundamental principles ; but each state kept its own commercial code, its own patent laws (with the right to tax commodities, coming from other members, which would infringe patents) and its own government monopolies. The proceeds of the customs duties were to be divided amongst the states in proportion to population. The tariff rates imposed moderate duties on manufactured articles, and duties for revenue on colonial produce, and gave freedom of import for raw materials and some manufactured articles required for industry. Much still remained to be done before the Zollverein became a unified commercial and industrial organisation, but the foundations were firmly laid.¹

Many important states still stood aloof, particularly the northern states—Hanover, Brunswick, Oldenburg, Holstein, the two Mecklenburgs, the three Hanse towns and Luxemburg—with Baden and the important commercial city of Frankfurt. Some of these did not long remain outside the Union ; the accession of the isolated Grand-Duchy of Baden, realised by its Government to be inevitable after the breakdown of the Middle German Union, was delayed only till May, 1835, by the hostility to Prussia of some of its political parties. In the same year Nassau joined the Zollverein, and the example was followed by Frankfurt after long and difficult negotiations at the beginning of 1836. In the next five years a number of small and not very important territories—such as Waldeck-Pyr-

¹ Schmoller, *Grundriss*, ii. p. 612.

mont and Lippe-Detmold—were included in the Zollverein without receiving the rights of independent members. Most of the larger states which persisted in their independence continued to act separately, but in May, 1834, Hanover, Oldenburg and Brunswick, whose interests were nearly identical, formed a union of their own, called the *Steuerverein*.

Almost immediately after the completion of the work of organisation, attempts were made to place the relations of the Zollverein with the neighbouring states on a more satisfactory footing. The diplomatic representation was entrusted to Prussia, but the first efforts were by no means successful. The negotiations with Russia, which pursued an almost prohibitive policy, failed completely, as did those with Austria;¹ whilst the Zollverein was distinctly worsted in a conflict with the Government of Louis Philippe in France.² The chief treaties actually completed were with Holland and Great Britain. In the former case there was something like a short customs war; the Dutch Government desired a commercial treaty, and to enforce its desire, and partly also to protect Dutch agriculture against German competition, it imposed higher duties on grain in October, 1835. The Zollverein replied by the imposition of higher duties on Dutch sugar, and by the abolition of privileges enjoyed by Dutch vessels on the Rhine.

¹ The details of these negotiations can be read in Zimmermann, i. pp. 138–52.

² *Ibid.*, p. 162.

Negotiations for a treaty then began, but broke down over the sugar question, since the growing sugar industry in Germany was strongly hostile to any concessions to Holland in this matter. So at first it was only possible to make an agreement in 1837 in regard to shipping, which put the vessels of the two nations on an equality. Negotiations continued, however, and in the beginning of 1839 a further treaty was completed, which reduced a number of duties on some Dutch dairy produce, sugar and rice, whilst the Zollverein obtained reductions in the Dutch duties on wine, grain, stones, timber, and a number of classes of manufactured goods. But it was speedily felt in the Zollverein that the concessions made to Holland were too great, and certainly there is in this case no sign of the skill which subsequently characterised the conduct of German commercial negotiations. Consequently the treaty was denounced by the Zollverein less than two years later. The treaty with Great Britain, completed in March, 1841, was also limited to the matter of shipping; it exempted Prussia from many of the restrictions contained in the English Navigation Acts, and on the whole was of some benefit to Germany, whilst Great Britain, in return, got the same reduction in the duties on sugar and rice as had been granted to Holland. The treaty was not popular, in the southern states particularly, and came to an end in 1848.

In 1841 the formal renewal of the Zollverein took place. It was perfectly clear that its institution

had been of the utmost benefit to the constituent states ; industrial and commercial development had been greatly stimulated ; many of the causes of inter-state disputes had been removed, and Governments and people alike were on the whole well satisfied.¹ The only difficulty at the renewal was caused by Prussia, for the financial arrangements of the Union had benefited the smaller states, but had reduced the revenues of Prussia, and her statesmen were somewhat dissatisfied, though they recognised fully the advantages which they had gained.² But the difficulty was not insuperable, for no one was anxious to break up the Union ; certain additional financial arrangements were made, not quite satisfactory to Prussia, but accepted by her, and the Zollverein was renewed on May 8th, 1841, for twelve years. Immediately afterwards there came fresh additions of territory. Brunswick was discontented with the action of Hanover in the Steuer-

¹ "The Commercial League is, in fact, the representative of a sentiment widely, if not universally, spread in Germany—that of national unity. It has done wonders in breaking down petty and local jealousies, and has become a foundation on which future legislation, representing the common interests of the German people, may undoubtedly be hereafter raised. . . . The Zollverein has brought the sentiment of German nationality out of the regions of hope and fancy into those of positive material interests" (Bowring, p. 1). For an extremely interesting contemporary criticism of Bowring's Report, see List, *System of National Economy* (translated by Lloyd), chap. xxxiv. (published in 1844).

² "Although Prussia does not fail to recognise that its subjects have shared in the general advantageous results of the Union, yet the position is altogether different when viewed from the financial standpoint" (Circular of the Prussian Government, 1839 ; quoted in Weber, p. 185). It would have been inadvisable to refer to the political advantages accruing to Prussia.

verein, and quitted that organisation in 1842; in the same year it entered the Zollverein. So did Lippe-Detmold and Schaumburg, and, much more important still, Luxemburg, which, though in dynastic union with the kingdom of Holland, was itself a member of the Germanic Confederation. In the last case special arrangements had to be made to prevent the Dutch Government making use of the position of Luxemburg to influence the policy of the Zollverein, and so the representation of the Duchy in the Councils of the Union was entrusted to Prussia.

One other important event of this period, which it will be convenient to notice here, was the treaty with Belgium. It was desirable that the relations between that country and the Zollverein should be as amicable as possible, since a great part of the German import and export trade passed over the Belgian railways and through Belgian ports. For the purposes of negotiations, then, the Belgian Government was in a strong position owing to this fact, and also because its geographical situation enabled it to play off France against Germany. The result was the treaty of 1844, by which the Zollverein gave a reduction of duties on commodities coming from Belgium, and on some articles of Belgian origin (particularly iron); whilst Belgium, on its side, guaranteed the existing freedom of transit for goods coming from or going to the Zollverein, and established certain preferences for German products. The shipping of the two nations

was put on an equal footing. Weber, the chief historian of the Zollverein, holds that the treaty chiefly benefited Belgium, since she gained easier access to German markets with her iron, whilst the Zollverein got no new concession of value ; and he adds that Prussia would never have yielded so much but for the fear of a Belgian alliance with France ;¹ but the Zollverein had secured freedom of transit for its goods through Belgium, and the establishment of an entrepôt at Antwerp, and these were matters of no small importance.²

¹ Weber, pp. 213, 214.

² Zimmermann, i. p. 278.

CHAPTER II

THE BEGINNINGS OF PROTECTION AND THE FIRST CRISIS

DURING the early years of the Zollverein there had been only a few increases in the customs duties,¹ but after 1840 there was a marked upward tendency in the tariff rates, due to a distinct movement towards Protection, which found its scientific expression in the writings of Friedrich List,² and particularly in his *System of National Economy*, published in 1841. His doctrine, that Protection is necessary to enable a nation to pass from the purely agricultural condition of society to a higher stage of combined industry and agriculture,³ that the encouragement of "production" was less immediately

¹ *E.g.*, on cotton and woollen yarn from six to eight thalers per centner, and on the finer qualities of bar iron from one thaler to three thalers.

² The best account of List's work and teaching will be found in M. E. Hirst, *Life of Friedrich List* (1909).

³ "In short, history and statistics alike prove the correctness of the dictum expressed by the ministers of George I: that nations are richer and more powerful the more they export manufactured goods and import the means of subsistence and raw materials. In fact, it may be proved that entire nations have been ruined merely because they have exported only means of subsistence and raw materials, and have imported only manufactured goods" (List, *System of Political Economy*, trans. Lloyd, p. 218).

important than the development of "productive powers," and that if Germany was to make economic progress in the face of the overwhelming industrial supremacy of Great Britain, a reasoned policy of Protection was essential—this doctrine found ready acceptance in the industrial circles of the Zollverein. List pointed always to the example of Great Britain, whose long-continued policy, he held, had been to secure the home market for its manufacturers, to encourage the increase of "productive powers" by the free admission, not of foreign goods, but of foreign workmen, and to bear a temporary loss for the sake of an ultimate gain. This policy had laid the foundation of Great Britain's industrial power, and he called on Germany to follow the example.¹

The practical demand for the application of List's doctrine came from the manufacturers of iron and the cotton-spinners, who had already secured some increases of the customs duties on imports competing with their products; and over this proposal there arose, between 1841 and 1850, the first real struggle between the rival policies of

¹ "If any nation whatever is qualified for the establishment of a national manufacturing power, it is Germany. . . . If any nation whatever has a right to anticipate rich results from a protective system adapted to her circumstances, for the progress of her home manufactures, for the increase of her foreign trade and her navigation, for the perfecting of her internal means of transport, for the prosperity of her agriculture, as also for the maintenance of her independence and the increase of her power abroad, it is Germany. Yes, we venture to assert, that on the development of the German protective system depend the existence, the independence, and the future of the German nationality" (List, *System of Political Economy*, trans. Lloyd, p. 425). For a general statement of List's view see below, pp. 66 seq., and 73.

Free Trade and Protection. In the case of the iron producers, the call for increased duties was due largely to over-production in England and the consequent reduction of the prices of English iron in the continental markets to a point at which continental manufacturers could not compete with them. There was a great increase in the importation of iron into Germany, from 0·9 million centner in 1839 to 2·6 millions in 1842, and 4·2 millions in 1843. In 1839 the German iron works produced 78 per cent. of the total amount consumed in Germany, whilst by 1843 their share had fallen to 45 per cent.¹ The cotton-spinning industry had been growing rapidly in Prussia, Saxony and the south-western states since the establishment of the Zollverein, but it was not yet firmly established, and in 1842 the import of cotton yarn was more than double the home production. The request for protection for these two industries naturally led to a sharp conflict of interests between the producers and the consumers of the two commodities. There was a growing demand for industrial machinery, and the manufacturers were opposed to any policy likely to increase its cost; and to the producers of cotton goods (an industry which had made rapid progress of recent years, and supplied one of the chief exports of the Zollverein) an ample supply of British yarn was an absolute necessity. The division over the question was also territorial. On

¹ Sering, *Geschichte der preussischdeutschen Eisenzölle von 1818 bis zur Gegenwart* (1882).

the whole, the north was in favour of Free Trade. The attitude of the Prussian Government was determined in the main by the agricultural and commercial interests. Large quantities of agricultural produce, chiefly grain and timber, were exported, especially to Great Britain after the repeal of the Corn Laws; and, on the other hand, the landowners needed agricultural machinery and feared an increase in its price as a result of the proposed higher duties; so that the Prussian Conservatives, whose strength lay in the agricultural districts, were, unlike their English contemporaries, strong advocates of freer trade. The Baltic ports—Dantzic, Stettin, Elbing, Königsberg and others—were engaged in the export of grain and timber, and were opposed to anything which might tend to restrict trade.¹ These influences were strong enough to overcome any inclination on the part of the Prussian Government to accede to the demands of the iron producers of the Rhine province. The two great Hanse towns (Hamburg and Bremen) took the same line; both had a large trade with Great Britain and America, exporting linen, timber, minerals, woollens, glassware and wines, and importing manufactured goods, tobacco and colonial

¹ Schippel points out that, in the absence of a well-organised railway system, the sea made foreign markets nearer to the lands along the Baltic than were the inland territories of the Zollverein. Even with the development of means of communication this is true of some parts of Germany to-day; it has recently been a cause of complaint that British coal can be conveyed to Berlin (by sea and canal) more cheaply than German coal from Upper Silesia (by rail and canal) or Westphalia (by rail).

produce generally. Frankfurt, which was the great entrepôt for British trade, also stood firmly on the Free Trade side. Saxony was carried the same way by the influence of the traders of Leipzig and the cotton-weavers, whose industry far exceeded in importance that of the spinners. The Thuringian states followed the lead of Prussia and Saxony. Brunswick and Nassau supported Prussia largely because the financial results of the Zollverein had been for them so favourable that they were unwilling to break with her.

The southern states, on the other hand, were distinctly inclined to Protection. Bavaria wavered; it was difficult for its government to decide between the rival spinning and weaving industries, but it was carried into the protectionist movement by the personal authority of King Ludwig I., who seems to have been influenced chiefly by political considerations. Württemberg and Baden, however, were anxious for the protection of the cotton-spinning industry, which had been most successful in those territories; and they were supported by Hesse.

The conflict continued for several years, and was particularly keen at the annual conferences. After the Karlsruhe Conference in 1845 feeling was so strong, that Prussia was accused of being unduly under the influence of Great Britain. On the other side, the Prussian Government had declared, as early as 1842, that the southern Governments took too narrow a view of the economic interests of Germany as a whole, and were unduly swayed

by the cotton-spinners, who were suffering from bad organisation and the over-hasty development of their industry.¹ Both sides gave way somewhat, and by 1850 the duties had been considerably increased. In 1843 the duty on certain kinds of cotton yarn was increased by 50 per cent.; in 1844 a small duty was imposed on pig-iron, hitherto admitted free, and there were slight increases on iron bars and rails. In the same year the duties on various kinds of woollen goods were increased 33 per cent., and those on gold and silver articles and leather gloves were doubled. In 1846 there were still further increases on all kinds of cotton yarn, linen yarn and twist, and some other commodities. On the other hand, however, there were reductions in the duties on a number of raw materials, and in the transit dues in 1850. It must be remembered also that the changes in the price of commodities (and there had been a very marked fall during this period) had not been followed by any corresponding change in the amount of the duties which, as already pointed out, had been fixed according to the value, thirty years before, of a particular quantity of each commodity. The result was that duties, which had been quite moderate originally, had now come to be in some cases almost prohibitive.² It is impossible to say how much further the movement

¹ Zimmermann, i. pp. 190 and 200.

² Michaelis, *Kommissionsbericht über den preussischfranzösischen Handelsvertragsentwurf*, quoted in Schippel, pp. 135-7; cf. note on p. 6.

towards Protection would have gone had it not been for political considerations, and particularly the problem of the relation of Austria to the Zollverein.

The Austrian Government, under Prince Metternich, had paid little attention to the negotiations for the formation of the Zollverein; its attempts to interfere had been unimportant, and its whole action in the matter had been marked by that complete indifference to economic questions which was its peculiar characteristic amongst the Governments of Europe. Its own tariff policy was protectionist, or rather in many cases prohibitive. But after 1833 even Metternich awoke to the danger which threatened Austrian authority in the Germanic Confederation from the growing influence of Prussia, and, as time went on, he realised that the economic leadership of that state in the Zollverein might, without great difficulty, lead to political predominance also. In 1841 the Austrian ministers began to consider the possibility of the adhesion of the Austrian Empire to the Zollverein, but came to the conclusion that for the time being, at any rate, it was impracticable, partly owing to the supposed impossibility of abandoning the policy of high Protection, and partly because of the peculiar position of Hungary, which was not in economic union with the rest of the Empire.¹ But from that time onward the problem was always under consideration, and the discussion became vigorous after the renewal of the Zollverein. In

¹ Weber, p. 244.

Austria itself the manufacturers clung to the protective policy, but in the community as a whole there was considerable dissatisfaction with it; and, further, the Austrian statesmen were more and more impressed by the political necessity of checking the Prussian advance. Consequently, the Austrian efforts were now directed towards forcing an entrance into the Zollverein, or, as a less preferable alternative, towards destroying it. These efforts became much more vigorous after the events of the revolutionary years 1848 and 1849. For one thing, the action of the National Assembly at Frankfurt, in offering to Frederick William IV. of Prussia the Imperial Crown of a Germany from which Austria was excluded, had brought home to the Austrian statesmen the extreme weakness of their position; and further, Metternich had been succeeded by one of the ablest and strongest ministers Austria has ever had, Prince Schwarzenberg.¹ Moreover, the conditions in the Zollverein were not unfavourable. It has already been pointed out that difficulties had arisen between Prussia and her colleagues in 1841 over the division of the customs revenue, and the dissatisfaction then created in the southern states had been increased by the growing preponderance of Prussia. They were therefore not unwilling to admit Austria, partly to keep Prussia in check—thus adopting

¹ Prussian diplomacy had received its severest blow in the Treaty of Olmutz in November, 1850, on the questions of the Elbe Duchies and Hesse-Cassel.

in the Zollverein that policy of "balance" which had reduced the Confederation to impotence—and partly because they desired support for their protectionist policy. They were, however, hampered by the knowledge that, with the comparatively small consumption of imported goods in Austria, any division of the customs revenues on the old lines would seriously reduce their revenues.¹ In 1849 the Austrian Government began to put forward proposals for the complete economic union of Germany and the non-German territories of the Austrian monarchy. It proposed, that is to say, the establishment of a complete industrial state, including a large part of Middle Europe and a population of over seventy millions; in this state neither the commercial, nor the industrial, nor the agricultural class would be predominant, but a tariff policy was to be adopted which would equally guard all three.

The Prussian Government from the first realised the political effect of an acceptance of these proposals, and set itself resolutely to oppose the admission of Austria. The most striking manifestation of this was its action in regard to Hanover. It has already been mentioned that in 1834 Hanover had formed, particularly with Oldenburg and Brunswick, a *Steuerverein* in the north. Since then there had been constant disputes with Prussia,

¹ Thus in October, 1851, Beust declared that, for financial and economic reasons, Saxony could not leave the Zollverein; and Bavaria and Württemberg requested Austria to guarantee the maintenance of their existing revenues (Zimmermann, i. p. 358).

which continued even after the adhesion of Brunswick to the Zollverein, an event destructive of the effectiveness of the Northern Union, and seriously crippling Hanover by cutting her territory in two. Negotiations had been going on for years between Prussia and Hanover, but without success, owing to the excessive demands made by the latter ; but now suddenly Prussia gave way, and concluded in September, 1851, a treaty in which she accepted most of the conditions which she had hitherto decisively rejected. Hanover received permission to import iron rails free of duty, and a guarantee of a larger share of the customs revenue than she would have received on the basis of population. The treaty was advantageous to Hanover in many ways, since it was clearly impossible for her much longer to maintain her economic isolation ; and for Prussia also the results were of great importance. For, in the first place, the alliance with Hanover secured the connection of her territories, even if the Zollverein should break up ; and secondly, it strengthened the Free Trade party, as did the treaty between Prussia and Oldenburg early in the following year.¹ But the treaty was with Prussia—not with the Zollverein ; it was therefore necessary for Prussia either to force the other states to accept the treaty, or to break up the Zollverein and throw herself into union with the northern states alone.²

¹ Neither Hanover nor Oldenburg had any industries to protect.

² Weber, pp. 294, 297.

Negotiations for the renewal of the Zollverein had already begun under the terms of the treaty of 1841, and they were complicated by the simultaneous discussions with Austria. In form, the controversy arose over the procedure to be adopted. Prussia insisted that the renewal of the Zollverein, with the acceptance of the treaty with Hanover and the various modifications of the tariff required by it, or considered necessary after the experiences of recent years, must precede any treaty with Austria. The southern states, on the other hand, wished the negotiations with Austria to be completed before the settlement of the future constitution of the Zollverein, since those negotiations might mean the admission of Austria. It is not necessary to follow in detail the course of the extremely involved proceedings of the various conferences which agitated Germany from September, 1851, to April, 1853. Whilst endeavouring to secure the treaty with the Zollverein as a whole, Austria was secretly preparing the way for the formation of a union to include herself and the South German states, in the event of Prussia refusing to give way and breaking up the Zollverein.¹ The Prussian statesmen, on their side, as we have seen, were

¹ The conferences between Austria and the Zollverein states began in January, 1852, at Vienna. Prussia and the Thuringian states were not represented; the public negotiations were in regard to the Zollverein treaty with Austria, but at the same time there were private conferences for the formation of a union without Prussia (Zimmermann, i. p. 371).

preparing for this and planning a new union in the north. Neither side was anxious to take the decisive step ; but the current ran strongly against Prussia, partly because of the distrust inspired by her unyielding attitude, and partly owing to the superior statesmanship of Schwarzenberg, until the death of that statesman in April, 1852 ; after that date the action of Prussia became more decided. At the first conference of all the states of the Union at Berlin in the same month, Manteuffel, the Prussian Minister-President, declared uncompromisingly the determination of his state to settle the question of the new constitution of the Zollverein before making any treaty with Austria. In May the Prussian Ministry published a note, in which it asserted that Prussia had not sought in the Zollverein any financial or political advantage, but simply the promotion of the economic progress of Germany, and expressed its willingness to negotiate with Austria for an extension of that system ; but repeated that it was absolutely necessary to determine the area and policy of the Zollverein before any useful action could be taken in that direction. It condemned strongly the methods of the southern states in entering into secret relations with Austria, and lamented the bad impression which the sight of the internal discord of Germany must make on foreign nations. But neither the southern states nor Austria were convinced of the sincerity of the Prussian declarations, and as they persisted in their policy, the Prussian Government

thought itself compelled to play its last card, and consequently announced in September, 1852, that it considered the general negotiations for the renewal of the Zollverein at an end, and henceforward would only discuss treaties with separate states.

But by this time both parties were prepared to give way. On the one side, Prussia was not anxious to carry out her threat, and was beginning to realise that her obstinacy had been carried too far; whatever her statesmen might say, they could not fail to recognise the political advantages which the Zollverein had given them, and they could not afford to run the risk of an alliance between Austria and the southern states. Further, it was doubtful whether Hanover was prepared to go the whole way with Prussia, who was more dependent than she cared to admit on the action of that state. On the other side, Von Beust and Von den Pfordten, the Ministers of Saxony and Bavaria and the leaders of the policy of the south, had become aware that the commercial and industrial classes of their states were doubtful as to the advantages to be gained by union with Austria alone, and were not prepared to sacrifice the economic benefits of the Zollverein for the sake of the political aims of the Governments. The conferences with Austria had been by no means satisfactory; the attempts to find a basis of agreement for the rival interests had so far failed. A more conciliatory attitude was adopted on all sides, and Prussia entered into direct relations with Austria without waiting for

the settlement of the problem of the Zollverein. Progress then became rapid, and in February, 1853, a treaty between Prussia and Austria was signed for twelve years. The entrance of Austria into the Zollverein was postponed, but it was agreed that in 1860 a joint commission should be appointed to consider plans for her complete admission; meanwhile, the two contracting parties undertook reciprocal favoured treatment of each other. Many commodities, chiefly raw and semi-manufactured goods and manufactures of small value, were to pass between the two contracting states free from any duty; and the duties on such articles as cotton yarn and goods, chemicals, iron and metal goods of all kinds except machinery, glass, agricultural produce, linen yarn, woollen and silk goods, and many other manufactured commodities were reduced 25 per cent. The terms of the treaty were to extend to all states in customs union with Prussia and to the Italian possessions of Austria.¹

The treaty was a compromise favourable to Austria, since it was the kind of arrangement usually made to prepare the way for a complete union. But Prussia had gained time, and she had secured the renewal of the Zollverein; therefore the treaty on the whole gave general satisfaction in

¹ In the treaty there was a clause which hampered Germany for some time. By Art. iv., if one of the two contracting parties reduced the duty on a commodity coming from a third state, not in receipt of favoured treatment at the date of the treaty, then the other party could impose a duty equivalent to the reduction on all goods of that kind coming from the state which had made the reduction.

Germany.¹ In the following April the Zollverein was formally renewed by a series of treaties which made various modifications and rearrangements, but in the main continued the old conditions; and Hanover was included. The years from 1853 to 1860 have been described as the period of the stagnation of the Zollverein. The protectionist movement was satisfied for a time;² the treaty with Austria did not greatly develop trade between the two countries,³ but there was a considerable growth of German industry; and the temporary defeat of Prussia seemed to put an end to any danger of the adoption of the policy of Free Trade which that state was supposed to represent. The mutual distrust inspired by the conflict left its effects, and in spite of numerous attempts from various sides at the annual conferences, no serious changes were made in the policy or administration of the Zollverein. But by 1860 the political and economic conditions had alike changed; it was necessary for Prussia to take decisive action if Austria was to be kept out of the Zollverein. The new commercial policy of the western states rendered a reconsideration of Germany's own policy inevitable, and furnished Prussia with her most effective weapon against her rival.

¹ Weber, p. 335.

² Schippel, p. 138.

³ The export of raw materials from Austria to the territories of the Zollverein increased somewhat; the export of manufactured goods remained almost stationary. The increased exports from the Zollverein to Austria were chiefly cotton and woollen yarn, iron and metal goods.

CHAPTER III

THE SECOND CRISIS AND THE COMMERCIAL TREATIES

THE years 1861 to 1864 are filled by the second great crisis in the history of the Zollverein, and in many respects the phenomena of the former crisis were repeated. Economic and political considerations were again involved, and political aims to a large extent again determined commercial policy.¹

The treaty with Austria had provided for the commencement, about the year 1860, of negotiations for the admission of that state to the Zollverein. But in order that there might be any real prospect of those negotiations being brought to a successful issue, it was necessary on the one side that the finances of the Austrian Empire should be brought into order, so that when the time for negotiations came she might have a free hand, and that her protective policy should be to some extent modified ; and, on the other side, that the Zollverein should

¹ " Justified as was the general course of German tariff policy in the period 1860-1873, it must be admitted that it was determined far more by reasons of home parliamentary and party politics, by considerations of foreign policy, and by a somewhat exaggerated devotion to pure theory, than by any scientific investigation of the actual position or German industry " (Schmoller, *Grundriss*, ii. p. 615).

not follow a policy so liberal as to frighten Austria away.¹ None of these conditions were realised; for the war of 1859 and the loss of Lombardy had again brought Austrian finances into disorder, and, moreover, between 1853 and 1862, the protectionist party had regained strength, and practically none of the reforms contemplated in the treaty of 1853 with the Zollverein had been carried out.²

From a purely economic point of view the Zollverein, in its endeavour to secure a large market for its agricultural and industrial products, might adopt either one of two policies. It might adopt the plan put forward long before by Bruck, of forming a large area with Austria with freedom of trade within and a strong policy of Protection against all outside. In this way a large home market would be secured, and a self-sufficing economic state created. Or alternatively, the Zollverein might adopt a more liberal tariff policy, and establish closer commercial relations with the western states of Europe.

The first of these alternatives was supported by the high Protectionists in the Zollverein—that is, by a considerable number of the manufacturers, especially in the iron industries, and by some of the South German states, particularly Bavaria and Württemberg; these had always advocated union with Austria, and represented to some extent in politics that “Greater Germany” party whose ideal was the establishment of a German Empire which

¹ Lotz, i. p. 10.

² Weber, p. 399.

should include all the possessions of Austria, even though many of them were inhabited by peoples not of German stock. There were great difficulties in the way of the realisation of this ideal, and the Austrian Government seems to have lost about 1860 much of its earlier interest in the matter; in 1861 it admitted that for the time the obstacles were almost insuperable.¹ The second alternative was supported by the Free Traders, or rather by those classes who desired the lessened restriction of foreign trade, and by the anti-Austrian politicians of Prussia.

In the late fifties there was something approaching to a real agitation for Free Trade in Northern Germany. It found its theoretical expression in the writings of Prince-Smith, to whose energy and influence was due the foundation of the German Economic Congress, which gathered together after 1858 all the reforming forces. There was an admitted need for the amendment of the tariff; no readjustment of the specific duties had been made to bring them into a more satisfactory relation to values. But the reformers desired to go further than this; they wished the amendments to be made deliberately in the direction of greater freedom of trade. Much of their political strength continued to depend on the support given to their ideas by the landowners, who wanted cheaper machinery and also the extension of the English market for their grain. Germany was still

¹ Weber, p. 383.

an overwhelmingly agricultural country—at the beginning of the second half of the century two-thirds of her population were engaged in agriculture,¹ and the proportion declined only slowly up to 1870; much grain was exported from the north, especially to Great Britain.² The Free Trade movement took its rise therefore in the agricultural eastern provinces of Prussia, but it was supported also by the weavers, who wanted cheap English yarn, by the middle class and small officials, to whom the cheapness of many commodities was a matter of very great importance, and by the commercial classes and the seaports. On the other side, many of the manufacturers were beginning to feel that they were strong enough to do without much of the protection they had hitherto enjoyed; some of them were already largely exporting (for example, one-quarter of the produce of the woollen industry was sent abroad), and they were anxious to get rid of anything which in any way hampered their relations with foreign markets.³ Political circumstances in Prussia itself were changing; the moderate Liberals were becoming predominant in the Parliament, and though vigorously opposing them on the question of the reorganisation of the army, the Government was quite ready to use their support for its anti-Austrian programme, and

¹ Voigt, in *Handels- und Machtpolitik*, vol. i. p. 141.

² The average value of the surplus of grain exported over that imported was estimated for 1860–4 at 35 mill. mks. (Lotz, i. p. 11).

³ Weber, p. 389. In 1859 manufactured goods amounted, so far as values were concerned, to $\frac{1}{4}$ of the total export (Lotz, i. p. 52).

was therefore favourably inclined towards a commercial policy which commended itself to them, and would repel Austria.¹ It found its opportunity in the necessity of dealing with the situation created by the change which had come over the economic policy of the states of western Europe, and by the altered attitude of France.

It has already been remarked that the trade relations between the Zollverein and France under the Monarchy of July had been greatly strained. A long commercial struggle had now been going on for nearly twenty years.² After the failure of negotiations in 1839, the July Monarchy had imposed very high duties on German goods; the Zollverein had replied in 1843 with retaliatory duties—increases on gloves, brandy, etc.—and most of these were still in force. Negotiations up to 1851 had failed, and fresh attempts after 1853 had been equally unsuccessful. In 1860 Napoleon III., by his own personal will and in spite of strong and general opposition in France, had broken with French traditional policy and made a commercial treaty with Great Britain, which “ranks with the treaty which founded the Zollverein, as perhaps the most important international event of the century in the sphere of economics.”³ By the

¹ *Jf. Lotz*, i. pp. 28-30.

² *Zimmermann*, i. pp. 161-2, 263-5, 393-5.

³ *Weber*, p. 368. It is interesting to notice the failure of this historian's prophecy in the following sentence, written in 1871: “The impetus which this treaty gave to the customs policy of all European countries is still far from ended, is rather becoming stronger, and in all probability will end only by a complete change of the whole customs legislation.”

treaty France undertook to impose on an agreed number of British products no duties higher than 30 per cent., and after October, 1864, 24 per cent., *ad valorem*; and Great Britain, on her side, undertook to abandon some duties and to reduce those on French wines. And further, both sides bound themselves to reciprocal "most favoured nation" treatment, that is to say, any tariff advantage granted by one of the contracting parties to any other state was, *ipso facto*, to extend to the other contracting party also.¹ The British treaty inaugurated a series which covered the States of Western Europe as a net. Treaties were made by France with Belgium, Italy, Holland, Switzerland, Sweden, Norway and other countries, and of these, the Belgian treaty, with its reciprocal reductions and provision for mutual "most favoured nation" treatment, became the model for all the others. The net result was that France had one general or "autonomous" tariff, which applied to all countries with which special arrangements had not been made; and a treaty or "conventional" tariff, with rates of duty settled by treaty with any one country and then extended to all other treaty countries by

¹ "English industry had long reached a point where it had no further need of protection against foreign competition; in fact, the existing protection was rather a burden. Already it was necessary for it to fight in the great world markets with similar products of the great industrial states, and it could therefore easily face their competition in its own country, where all the conditions were favourable to it. It was to be anticipated that this impulse would drive other states to a reform of their strict customs systems, and in this the English industry would assuredly find its benefit. The justice of this calculation has since then been completely established" (Weber, p. 370).

the action of the "most favoured nation" clause. Most of the nations which entered into the system were influenced partly by the desire not to let Great Britain secure greater advantages in France than they themselves enjoyed, and partly by the anxiety to do something to compensate for the loss of part of the American market, owing to the United States high protective tariff of 1861.

It became absolutely necessary for the Zollverein to take action. Great Britain generalised all the reductions which she had made in the French treaty, she extended them to the products of all countries; but France only gave reductions to the treaty states. Consequently the British and Belgian manufacturers enjoyed an immense advantage over the Germans,¹ and the trade of Germany with France was at the best only small, for, whilst it imported from that country goods to the value of 154,000,000 francs, it sent her goods worth only 82,000,000 francs.² The German manufacturers hoped that by a treaty they would secure a greatly developed market in France for their iron and steel, textiles, leather goods, etc., many of which were practically prohibited by the French "autonomous," as distinct from the "conventional" or treaty tariff. France, on the other hand, communicated early in 1861 her willingness to negotiate with Prussia, which

¹ *E.g.*, "Edged tools from treaty states paid a duty into France of 18 francs per 100 kilo., but from the Zollverein 160 francs; the duties on paper were respectively 10 and 160 francs, on iron tools 12 and 60 francs" (Schippel, p. 171).

² Lotz, i. p. 37.

was entrusted with the diplomatic representation of the Zollverein, and Prussia readily accepted the invitation.

It was clear, however, that the treaty proposed must have much wider effects than the mere development of the trade with France. It must involve a readjustment of the whole Zollverein tariff, and to that there was no particular opposition; in fact, the work of reform had commenced already—in March, 1861, the transit duties were abolished, and also a considerable number of the export duties. But of far greater importance was the probable influence of the contemplated treaty on the relations with Austria. The Prussian statesmen realised at once that the grant of reduction of duties to France, and the establishment of "most favoured nation" terms with that country, would render impossible the continuance of the special relations, under the treaty of 1853, with Austria, and would put an end to the idea of a union between Austria and the Zollverein.¹ Free Trade was to be the most potent weapon employed by Prussia in her effort to exclude Austria from the future German Empire.² The other states of the Zollverein realised this, and at once a struggle began.

It was, in fact, a repetition of the events of ten years before. The time for the renewal of the Zollverein was drawing near, and, just as on the previous occasion Prussia had made a treaty with

¹ Weber, p. 373.

² Schippel, p. 172.

Hanover and insisted on its acceptance as a condition of the renewal of the union, whilst the southern states had striven to make the admission of Austria the basis of negotiation, so now Prussia pushed on the completion of the treaty with France in order to repel Austria. And again she insisted that the new treaty should be accepted by the other states if the Zollverein were to be continued. The treaty between Prussia and France was hastened admittedly for political reasons,¹ and was completed on 29th March, 1862, though the actual ratification did not take place till the following August, after approval had been given by the Prussian Parliament. It was communicated immediately to the other Governments for their acceptance, and was speedily rejected by Württemberg, Hanover, Nassau, and Hesse-Darmstadt; Saxony alone, abandoning her old policy, now threw herself on the Prussian side. The attitude of the opposition was undoubtedly influenced by the proposal put forward in July by Austria for a complete union with the Zollverein, the preliminary condition, of course, being the postponement of any arrangement with France till after that event. To this Prussia would not accede, declaring herself bound, for her own part, to carry out the treaty. The southern states attempted, at the end of 1862, to open direct negotiations with France, but were rejected.² Meanwhile conferences

¹ Weber, p. 386.

² Schippel, p. 175, quoting Bismarck's speech on 26th December, 1862.

on the renewal of the Zollverein were going on, but the difficulties were great. In November, 1862, the Prussian Government had declared definitely that it took the rejection of the French treaty by the southern states to mean their intention not to continue the Zollverein. After the conferences of the first half of 1863 on the Austrian question and the renewal of the Zollverein had produced no satisfactory result, the Bavarian Government suggested the formation of a separate union from which Prussia and her allies should be excluded, and which should come to terms with Austria on the basis of the treaty of 1853. But it soon became apparent that only Bavaria and Württemberg were prepared to go so far, and even in those states the Governments were not sure of the support of the whole of their population. After further complicated discussions, in which both sides attempted to justify themselves before public opinion, but the Prussian Government was handicapped by the impossibility of stating its real aims, Prussia, on the 17th December, 1863, gave formal notice of the termination of the Zollverein. The other states now yielded, particularly as Austria was now less inclined to push her proposals. The conferences were renewed in February, 1864, and at the same time Prussia began negotiations for a simple treaty with Austria. After some delay, on the 11th April, 1865, a treaty, containing not much more than the guarantee of simple "most favoured nation" treatment, was made with Austria; and in

May, after the acceptance in the previous year by the southern states of the French treaty, the Zollverein was formally renewed.¹ In the same year treaties similar to the one with Austria were made with Belgium, Great Britain (including her colonial possessions) and Italy, and the treaty with France, so long under discussion, at last came into force. The Zollverein had followed the example of the last-named country in its adoption of the system of "autonomous" and "conventional" tariffs.

The series of treaties thus completed brought of necessity sweeping changes in the customs tariff of the Zollverein. Already, whilst the negotiations with France were in progress, but without particular reference to them, the transit duties had been abolished, and all the parties to the treaties now bound themselves to maintain this policy for the future. Further, there had been a growing inclination to abandon the idea of helping those industries for which the raw materials were produced at home, by prohibiting or limiting the export of the latter. In no case was the method very effective, and in some instances, such as the leather and woollen industries, it could be shown to be harmful.² Most export duties were now abolished; some remained, but were reduced, as, for example, those on the materials requisite for paper-making. All the contracting parties reserved to themselves the right to prohibit exports, but under strong French pressure

¹ Its practical renewal dates from October in the previous year.

² Lotz, i. p. 43.

the Zollverein agreed not to make use of this power in regard to coal.

Much more important was the reduction of duties on imports, and this presented the greatest difficulties. For the insertion in most of the treaties of the "most favoured nation" clause meant that any reduction granted by the Zollverein to one power would have to be extended to all the others. So the Zollverein in granting reductions to France had to consider, not simply their effect on the imports from that country, but how far the necessary extension to other lands, for instance, Great Britain and Belgium, would encourage the attack by their manufacturers on the German home market. The reductions made under these conditions represented a deliberate policy of Free Trade, in that they were inspired by the desire not only to promote trade relations with the contracting states, but also to improve the tariff by the removal of anomalies, and by abolishing protection wherever it seemed no longer required. So the tariff was disencumbered of duties which had no protective or financial results (as that on zinc, of which the Zollverein exported none and imported much); the duties introduced for retaliatory purposes (usually without effect) and no longer important—as the surtaxes on French goods imposed in 1842 and the duty on Russian tallow—were abolished; and all the raw and semi-manufactured materials of industry were admitted free.¹

¹ Lotz, i. pp. 42-4.

On none of these things was there much conflict of opinion, but the case was different in regard to manufactured commodities; some of the industries, such as the iron trades and the cotton spinners, still clung to Protection, and had strongly opposed the treaties for that reason. But their resistance was overcome, and a great number of reductions were made—the treaty with France alone had provided for 161 changes in the tariff, mostly in regard to manufactured goods. Thus the duties on cotton goods were reduced by 40–80 per cent., on silk 50 per cent., on silk goods 45 per cent., on pig-iron 25 per cent., on leather 60 per cent., on leather goods 50 per cent., on sewing needles 80 per cent., on woollen cloth 60–80 per cent., on fine iron goods 80 per cent., on pressed glass 33 per cent.¹ These changes, however, were not made on any definite plan—the tariff had never yet undergone a complete and systematic revision; that might have followed, but the rapidity of the subsequent movement towards Free Trade rendered any rearrangement of the tariff unnecessary, by almost destroying it.

¹ Weber, pp. 441–3.

CHAPTER IV

THE ZOLLVEREIN AFTER THE TREATIES—THE COMPLETION OF FREE TRADE AND THE REACTION

It is a striking testimony to the strength of the Zollverein and its hold upon Germany that during the war of 1866, when the constituent states were fighting each other, the joint customs administration went on without interruption.¹ After the speedy termination of the struggle and the destruction of all prospect of Austrian predominance in Germany, there came a reform of the constitution of the Zollverein by the treaty of 1867 between the North German Confederation on the one side, and Bavaria, Württemberg, Baden and Hesse on the other.² The system of a union of independent states, each possessing the right to veto any proposal, was replaced by an organisation in which matters were decided by a majority of votes—a change generally felt to be necessary on account of

¹ Weber, pp. 462-3.

² It should be noted that Hanover, Electoral Hesse, Nassau, and Frankfurt, hitherto independent states of the Zollverein, had become part of the Prussian Kingdom; and the Zollverein area was extended by the inclusion of Schleswig-Holstein, also added to Prussia.

the innumerable difficulties and delays which the old method had called forth. The Zollverein, thus reconstituted, now included all the German states except Hamburg and Bremen. The Customs Union Council (Zollbundesrath) consisted of fifty-eight members, of whom Prussia had seventeen, and represented the old general conference; but to it was added a Customs Parliament (Zollparlament) composed of members of the North German Parliament and representatives of the South German states.¹ The position was somewhat peculiar, for many of the states were largely dependent on the customs revenue, and this was controlled by the Customs Parliament. Consequently, while each separate state could fix its expenditure at whatever it pleased, it could not control the chief part of its revenue—a fact which gave great impetus to the movement for complete union.

In 1871 the Franco-German War, and the patriotic enthusiasm it evoked, brought the establishment of the Empire, and at last political as well as economic union was attained.² In the Empire, legislation concerning customs and trade was to be a matter for the Imperial Parliament; the proceeds of the customs duties were to go to the imperial exchequer, and not to be divided between the state exchequers as before; the duties were to be

¹ Weber, p. 467.

² There were some slight modifications to this—Hamburg and Bremen were in the Empire, but not in the Customs Union; Luxemburg is still in the Union, but not in the Empire.

collected by officials of the separate states, but under the control of the Emperor as executive official of the Empire. The new machinery speedily showed itself to be effective, and the old wearisome negotiations between the states on every proposal for a change of economic policy were at an end.¹

The wars of 1866 and 1871 necessarily made considerable changes in the commercial relations of Germany with Austria and France. Austria was inclined to a less strongly protectionist policy, partly because her statesmen, in the reorganisation of the Empire, were compelled to pay more attention to the interests of Hungary, which was mainly agrarian, exported grain and other agricultural produce, and was distinctly sympathetic to freer trade. In the treaty of 1868 between Austria and the Zollverein there were reductions made on both sides; by Austria on manufactured goods, by Germany on wine and iron.² In the case of France, there were fears that she might refuse to renew the treaty with Germany whilst continuing her arrangements with other powers; and it was also likely that, should Thiers remain in power, she would adopt a strongly protective policy. All that could be obtained was secured in the Treaty of Frankfurt in May, 1871, but it was little more than the guarantee of perpetual "most favoured nation" treatment; it did not secure a permanent set of low duties as the previous treaty had done. Other treaties of the same kind as this were made

¹ Zimmermann, ii. pp. 71, 72.

² Lotz, i. 86-8.

in March, 1868, with Spain and her possessions in Cuba, Porto Rico, and the Philippines; and in the following year with the moderately protective Switzerland, with Mexico and Japan.

The Franco-German War had one other most important economic effect. The acquisition of Alsace-Lorraine greatly increased the competition which German spinners and textile manufacturers had to meet, without bringing any corresponding development of the home market. In Germany, in 1868, there were 3,000,000 cotton spindles and 37,000 weaving looms, whilst in the same year there were in Alsace-Lorraine 2,131,000 cotton spindles and 48,536 looms.¹ There was much discussion and uncertainty in Germany as to the policy to be adopted in regard to the new imperial lands; but finally it was found necessary to admit them completely into the Union, and the prosperity which followed immediately after the war made the new competition less felt than it would otherwise have been.²

The policy pursued by the Zollverein after 1866 was in the direction of Free Trade, and under the guidance of Delbrück the movement progressed with great rapidity. In 1868 the reductions made in the treaty with Austria were generalised; some duties were abolished, and there were reductions on certain kinds of cotton goods, linen yarn, pig-iron, unwrought steel, drugs, fine leather goods, and other commodities.³ Then came the further

¹ Zimmermann, ii. p. 81. ² *Ibid.*, pp. 81-5. ³ Schippel, p. 185.

reform in 1870, which simplified the tariff, reduced still further the duties on iron and steel, and freed altogether a number of articles, particularly chemicals. Finally, in 1873 there were still more changes, and the completion of the general policy of the reduction or entire abandonment of protective tariffs, and the adoption of tariffs for revenue purposes only.¹ The changes thus made were not to come entirely into force before the 1st January, 1877, and by that date the duties on iron, except on fine goods, were completely abolished, as on most other classes of imported goods. Only a small group of highly finished commodities remained liable to duties; the German Empire had become very nearly a free-trading state.

As the duties on iron form about the best illustration of the line of movement, it may be useful to set them out here.

| Commodity. | Rates of Duty in Mks. per 100 Kilo. | | | | | | |
|------------------------------|-------------------------------------|--------|-------|-------|--------|-------|-------|
| | 1839 | 1845 | 1865 | 1868 | 1870 | 1873 | 1877 |
| Pig-Iron . . . | 0 | 2 | 1.50 | 1 | 0.50 | 0 | 0 |
| Bar-Iron . . . | 8-18 | 9-18 | 5-7 | 5-7 | 3.50-5 | 2 | 0 |
| Iron Plates . . . | 9-21 | 18-24 | 7-15 | 7-15 | 5-7 | 2 | 0 |
| Coarse Cast-Iron Goods . . . | 6 | 6 | 2.40 | 2.40 | 2.40 | 2 | 0 |
| Coarse Iron Goods . . . | 36 | 36 | 8-16 | 8-16 | 8 | 5 | 0 |
| Fine Iron Goods . . . | 60-300 | 60-300 | 21-60 | 24-60 | 24-60 | 24-60 | 24-60 |

The establishment of this policy was the result of mingled economic and political forces. The

¹ Schippel, p. 186, remarks that the tariff legislation of these five years was altogether in the spirit of the financial reforms of Peel and Gladstone.

landowners of the eastern provinces were still free traders, and so in a more moderate way were the commercial class and many of the manufacturers.¹ The opposition came, as always, from the heavy iron and spinning industries, championed chiefly by the governments of the southern states. The Free Trade movement, which was so strong that Government proposals to protect petroleum and raise the duty on tobacco for financial reasons were rejected,² found its political advantage in the fact that there was at the time no compact Conservative party, and that Bismarck was relying on the moderate Liberals for support in his schemes for the organisation of the Empire. Unwilling to accept many items in their political programme, he disarmed their hostility by the adoption of their economic policy; but he left commercial matters largely to Delbrück and Camphausen.³

The practical completion of the Free Trade policy by the cessation of the iron duties was followed by an immediate and sharp reaction. The representatives of the iron and cotton industries had never ceased their agitation against the reduction of the tariff, and in conjunction with the manufacturers of chemicals, sugar, linen and leather, they, in 1876, formed the Central Union of German Manufacturers, which commenced to work for a return to Protection. They were aided by the

¹ Lotz, i. pp. 91, 92.

² Zimmermann, ii. pp. 219, 220.

³ Zimmermann (ii. p. 230) complains that the whole policy at this time was a slavish imitation of the action of Great Britain, without any regard to the difference in geographical and economic conditions.

conditions of German industry after 1872, but still more by the changes which were coming over German agriculture and by the financial needs of the Empire.

In the history of German trade after 1871 the dominant fact is the payment of the war indemnity of nearly six milliard francs (including interest) by France; much of it was paid in bills of exchange, but a great amount in gold. The results were a great increase of imports, whilst exports remained almost stationary; a very rapid rise in prices, as a result of the large influx of gold; and considerable impetus to industry from the high prices and also from the expenditure by the Government on railways and other public works. There followed the usual results—excessive development of factories and mills, over-capitalisation, and over-production. In June, 1870, there were in Prussia 410 joint-stock companies with a total capital of three milliard marks; by the end of 1874 the number had increased to 2,267, with a capital of seven and one-third milliards.¹ But already in 1873 the crash had commenced; it was widespread and general, not merely in Germany, but outside. There followed a rapid fall in prices and general depression; and for a time the low level of prices in Germany kept serious foreign competition away. Then, however, the situation gradually improved; markets became steadier, and prices began to rise. But just at that time Great Britain entered upon a period of depres-

¹ Blum, p. 158, quoting Max Wirth's *Geschichte der Handelskrisen*.

sion ; agricultural difficulties, due to bad harvests, affected the whole country ; there was a drop in the home demand for iron and textile goods, and the British manufacturers, who were over-producing as a result of the impetus given by the unusually high prices of 1872 and 1873, now sent large quantities of goods abroad at extremely low prices, that is to say, they "dumped." This counteracted the tendency of the German market towards a rise in prices, and seriously hindered the recovery of the German manufacturers ; hence came the renewed demand for Protection, strongest in the case of the textile and iron industries.¹

Moreover, a very important change had come over the opinions of the landowners. With the development of means of transport and especially the growth of the American railways, the Russian and even American competition in the supply of grain to the European markets was beginning to be severely felt ; the German landowners were not only ceasing to be exporters, but were severely threatened even in the home market. Further, the movement of population to the towns had commenced in Germany, and the more attractive conditions offered by industrial employment were beginning to deprive the landowners of their labourers. They had ceased to have any further direct interest in the promotion of Free Trade ; in fact, they were themselves beginning to desire some measure of

¹ Dietzel, in *Quarterly Journal of Economics*, May, 1903. Cf. Lotz, i. pp. 122-37.

protection. And even some of those observers who believed that it would be a mistake to attempt to shut out the foreign and cheaper supplies of foodstuffs, were yet, like Conrad, willing to establish a moderate amount of protection for grain, by a scale of duties limited in duration and gradually diminishing, to enable the agriculturists to transfer their attention to other branches of production.¹

How far this joint protectionist movement of agriculture and industry would have been successful, if left to itself, is doubtful; the determining factor in the situation was the condition of the imperial finances. The expenditure of the Empire was increasing rapidly, and to Bismarck it seemed impossible to continue to raise the revenue required by direct taxation, which was becoming extremely burdensome. It was felt that a rearrangement of the imperial finances was absolutely necessary, both on economic and political grounds, and Bismarck resolved that his best policy was to have recourse to indirect taxation in the form of customs duties, and to substitute the proceeds of these for the contributions to the imperial exchequer from the separate states—contributions which they raised by direct taxes. The demands on the states were steadily rising; in 1874 they were 51,400,000 marks, whilst by 1878-9 they had risen to over 70,000,000 marks. The Chancellor was much influenced by these considerations, and as a member

¹ Dietzel, pp. 386, 387.

of the landowning class he was not insensible to its demands; the position of affairs in home politics had changed, and he could afford to break with the Liberals. In October, 1878, 204 members (*i.e.* a majority) of the Reichstag signed a declaration in favour of the reconsideration of fiscal policy.¹ And another fact which had considerable weight with the Chancellor was the growth of Protection in the neighbouring countries, particularly in France in the tariff of 1878.² The policy which Bismarck now adopted had three objects in view. First, he desired to establish (to use his own words) "a customs system which secures to the entire home production a preference before foreign production in the home market, whilst keeping within the limits imposed by financial interests." Secondly, there was to be a reform of the railway system and railway rates, to promote the transport of German goods, and to put an end to the preference given on many of the railways to foreign products; he wished to obtain an imperial railway system, and when that

¹ Blum (p. 310) quotes from the Circular: "In view of the commercial policy of most of the countries bordering on Germany, with the knowledge of the absence of a German customs tariff and the evil effect of this on national well-being, and on account of the continuance of the crisis in German industry and agriculture (the signatories believe a reform of the tariff, based on the result of careful investigations and expert balancing of interests, to be absolutely necessary . . . Although holding diverse views as to commercial policy, the signatories are agreed on this fundamental point—that the difficult problems of German commercial policy cannot simply be solved by phrases about Free Trade and Protection, but that it is much more necessary to reconcile the real and supposed conflicts of interests by the exercise of a scientific, patriotic and reasonable spirit."

² Lotz, i. pp. 146-9.

proved impracticable, he resolved that the Prussian railways, at least, should become the property of the state. And thirdly, he was anxious for the re-arrangement of the imperial finances.¹

The argument for the new policy was set out in a letter addressed by the Chancellor on 15th December, 1878, to a committee appointed by the Bundesrath to consider the revision of the tariff. The financial object of tariff reform, according to this memorandum, was to be the reduction of direct and the increase of indirect taxation; and the Chancellor calculated that if the future import duties were to average 5 per cent. *ad valorem*, the increased revenue would amount to about seventy million marks, or almost exactly the amount which in the year 1878-9 was contributed by the separate states to the imperial exchequer. To secure this result it was necessary to return to the principle of the liability to taxation of all foreign products crossing the frontier, with the exception of those materials for industry which Germany either did not produce at all, or produced only to an inadequate amount. This proposal the Chancellor proceeded to justify on the ground of the economic interests of the nation. "I leave undecided the question whether complete mutual freedom of international commerce, such as is contemplated by the theory of Free Trade, would not serve the interests of Germany. But as long as most of the countries with which our trade is carried on

¹ Blum, pp. 305, 306; cf. Dawson, pp. 47-54.

surround themselves with customs barriers, which there is still a growing tendency to multiply, it does not seem to me justifiable, or to the economic interest of the nation, that we should allow ourselves to be restricted in the satisfaction of our financial wants by the apprehension that German products will thereby be slightly preferred to foreign ones." Protective duties for particular industries he thought likely to cause difficulty and arouse hostility, but a customs system protecting the whole home production would "in no way appear partial, because its effects would be more equally spread over all the productive circles of the land than is the case with a system of protective duties for isolated branches of industry. The minority of the population, which does not produce at all, but exclusively consumes, will apparently be injured by a customs system favouring the entire national production. Yet if by means of such a system the aggregate sum of the values produced in the country increase, and thus the national wealth be on the whole enhanced, the non-producing parts of the population—and especially the state and communal officials who are dependent upon a fixed money income—will eventually be benefited." He therefore proposed the maintenance of the existing duties and their possible increase, and the introduction of new duties; and he held that, except in cases where the foreign commodity was not produced in Germany and was indispensable, the greater part, if not the whole, of the

import duty would be borne by the foreigner. And in any case a small duty of from 5 to 10 per cent. would only be one of the forces affecting prices; it would probably not do the consumer any harm, and would do the home producer some good. In regard to agriculture, the Ministry, in the memorandum which accompanied its definite proposals, declared that the duties were so small that they could not be regarded as protective to any considerable extent, and would not diminish, and still less exclude, the import of foreign grain; but they would check the swamping of the German market by the surplus products of other lands, and make German agriculture better able to hold its own, even if the general price of grain should fall. Even granted that the result of the new duties would be an increase in the price of the necessities of life, the Government asserted that this would be corrected ultimately by the increase of home production and by the greater demand for labour and consequent rise of wages.¹

The Chancellor was supported by the iron and textile industries and their allies, and by the land-owners and the agrarian party generally. He was opposed by the exporters, who feared retaliation (though this opposition was somewhat weakened by the growing tariffs of foreign powers); by the two great seaports, which dreaded the dislocation of their trade; and by the municipalities, which, on the great Municipal Day at Berlin, where seventy-

¹ See passages quoted in Schippel, pp. 230-2.

two town councils were represented, protested strongly against any policy likely to cause an increase in the price of food.¹ The National Liberals led the opposition, but they were a declining party, and they had no hold on the workmen; the Socialist movement was growing rapidly, but its leaders seem to have been disinclined to take any vigorous action. Thus in 1876, the Socialist Congress at Gotha declared that "the Socialists of Germany are indifferent to the controversy raging in the proprietary classes as to Protection and Free Trade; the problem is a practical one, and must be so considered in each particular case." And some of the Socialist leaders were apparently inclined to take the line that a protective tariff might increase the demand for labour in the home market, and consequently bring some benefit to the workmen, though, on the other hand, they disapproved of proposals which tended to raise the price of food.²

In spite of a considerable amount of opposition, the tariff proposals were carried,³ not, however, before the agrarian party, which held the political balance, had forced the Government to increase considerably the duties originally proposed on agricultural produce. The tariff ultimately adopted dealt with forty-three groups of commodities, and retained the system of specific duties, that is to

¹ Blum, p. 330.

² For a sketch of the Socialist attitude towards the problems of tariff policy, see Schippel, pp. 323-52.

³ The details of the controversy may be read in Zimmermann, ii. pp. 271-300; and Lotz, i. pp. 163-74.

say, duties levied on a given quantity of each commodity, and not changing with the changes in value of that quantity. The rate of duty on wheat, rye and oats was 1 mark per 100 kilogrammes ; on barley and maize 50 pfennigs ; on flour 2 marks ; on meat 12 marks ; on oxen 20 marks each, sheep 1 mark, and pigs 2·5 marks. Raw materials for industry, such as cotton, flax, hemp, wool, hides and coal were admitted free ; on pig-iron the rate of duty was 1 mark per 100 kilogrammes ; on iron and steel "semi-manufactured goods" the rates were from 2 to 2·5 marks, and on other iron and steel goods they ranged from 7·5 to 15 marks ; on machinery they varied from 3 to 8 marks. On yarns and textiles the duties were from 15 to 30 per cent. *ad valorem*. The whole tariff system was inelastic, defective, and unscientific ; in particular it did not take sufficient account of the complications of industry, and lacked adaptability.¹ The new policy was based on the principle of moderate protection for agriculture and industry alike. The British protective system, up to 1846, had been maintained chiefly for the sake of agriculture ; the German protective system from 1848 to 1860 had been dictated by the interests of manufacturers ; now an effort was to be made to harmonise the two, and to give a fair measure of protection to all. And at this point it will be convenient to examine the attitude of the German economists towards national fiscal policy.

¹ Schumacher, in *Verhandlungen*, pp. 157, 158.

THE ATTITUDE OF THE ECONOMISTS

AT the outset of a survey of the movement of economic opinion in Germany in the last century, it is necessary to remind ourselves of two very important influences which have dominated the whole of German political thought during that period. The first of these is the idea of the paternal state—an idea based on the historical fact that the Prussian State is the creation of a series of strong rulers, such as the Great Elector, Frederick William I., and Frederick II., working by means of a powerful and highly centralised bureaucracy. For centuries the nation looked for impetus and initiative in all departments of national life to the monarchs, and on the whole it rarely looked in vain. The second great influence is that of the desire for national unity—a desire disappointed at the War of Liberation, but ever growing in strength, attempting to realise itself in the abortive movements of 1848–9, and at last triumphant in 1870. The effect of these two ideas has been a general sympathy on the part of all German writers on economics and politics towards

State action, and an inability amongst economists to keep their discussions free from political considerations.

Most of the German economists of the early years of the nineteenth century were followers and interpreters of Adam Smith, and the most important representatives of this school were Rau, whose *Lehrbuch* was published between 1826 and 1832, and Nebenius, the official of Baden, who, it will be remembered, played a considerable part in the foundation of the German Zollverein.¹ But as early as 1809 a note of revolt against the doctrines of Adam Smith was sounded by Adam Müller, whose *Elemente der Staatskunst* was published in that year. His criticism of Adam Smith was based chiefly on his own conception of the State as representing the "totality of national life." Too much regard, he held, is paid by Adam Smith to the individual and to the immediate production of exchange values; and he complained that the collective interests of the community, the maintenance of collective production in the future, and the social well-being of the workers are almost entirely ignored, and that Adam Smith neglects to point out "the necessary counterpoise and completion of the division of labour," namely, the principle of the "national combination of labour." For Great Britain Adam Smith's individualistic economics might be adequate, and probably were; for Germany and the continental states generally

¹ See p. 8.

a different theory of economic action and of the relation of the State to commerce and industry was absolutely necessary.

Much more important and much more influential was the work of Friedrich List (1789-1846), who published his *Nationale System der Politischen Oekonomie* in 1841—a book which owed its wide-reaching success partly to its power of argument and abundance of historical illustration, and partly to its fervid patriotism and its appeal to that growing desire for national unity which animated the vast majority of the German people. It is less an economic argument than a great political appeal, and its title gives the key to its contents. Like Müller, List lays great emphasis on the distinction between “private economy” and “national economy.”¹ National unity is the first essential of individual well-being, and “private economic interests, like all others, must be subordinated to the maintenance, completion, and strengthening of a nationality.” Like Müller again, he emphasises the fact that it is not to the production of wealth alone that the economic policy of the nation should be directed, but to the creation of many-sided productive powers, and the harmony and balance of the three branches of national economic

¹ List, *National System of Political Economy* (translated by Lloyd), chap. xiv. “The foreign trade of a nation must not be estimated in the way in which individual merchants judge it, solely and only according to the theory of values (*i.e.* by regarding merely the gain at any particular moment of some material advantage); the nation is bound to keep steadily in view all those conditions on which its present and future existence, prosperity, and power depend” (chap. xii.).

action—agriculture, manufacture, commerce. In this latter idea of the balance of the three departments of economic activity we may detect traces of the influence of one of the most remarkable works of Fichte, whose *Geschlossene Handelsstaat*, published in 1800, sets forth a scheme of a self-contained socialistic state, in which perhaps the most important task of the Government is to maintain the balance between the producers of food and raw material, the producers of manufactured goods and the merchants, and to prevent the predominance of any one group over the others; from this ideal state foreign trade must be excluded, because it is certain to tend to destroy such a balance. But whilst he desired to maintain agriculture, List also held most strongly that industrial development is essential to any community which desires to attain to the highest possible level of civilisation.¹ To enable industries to grow up, protection by tariffs and all possible forms of governmental action is necessary until such time

¹ “Manufactories and manufactures are the mothers and children of municipal liberty, of intelligence, of the arts and sciences, of internal and external commerce, of navigation and improvements in transport, of civilisation and political power. They are the chief means of liberating agriculture from its chains, and of elevating it to a commercial character and to a degree of art and science, by which the rents, farming profits, and wages are increased, and greater value is given to landed property. The popular school has attributed this civilising power to foreign trade. . . . If, however, trade in the manufactures of far-distant lands exercises admittedly so beneficial an influence on our agricultural industry, how much more beneficial must the influence be of those manufactures which are bound up with us locally, commercially, and politically” (List, chap. xii.).

as the manufactures are strong enough to stand alone and to contend effectually with foreign competition. This is the "infant industries" argument for Protection; but it will be noticed that even List did not contemplate the maintenance of Protection as a permanent policy—the ultimate ideal for each state is (in his doctrine) that by these "educational tariffs" it should at last become strong enough to cast off trade restrictions.¹ But in spite of the increase of prosperity and growth of industrial activity in Germany since the establishment of the Customs Union, Protection could reasonably, at the date of List's book, be thought necessary to enable the rising industries to develop in face of the overwhelming industrial power of Great Britain.

Two years after the publication of List's great book, there appeared the first work of the school which was to exert the most potent influence on German economic thought for the remainder of the nineteenth century—the historical school. In 1843 Roscher published his *Grundriss*, and this was followed in 1848 by Hildebrand's *Die Nationaloekonomie der Gegenwart und Zukunft*, and in 1853 by the book of Karl Knies entitled *Die Politische Oekonomie von Standpunkte der geschichtlichen Methode*. These various works formulated the general principles on which the new school has worked, and the principles have been applied since that time by an ever-increasing

¹ See below, p. 73.

army of students and investigators, who have devoted themselves chiefly to historical inquiry and the collection of the facts of economic history, and to the deduction from the results so obtained of principles which may serve as a guide for the economic action of communities, and particularly of their own country.

The historical school has on the whole always thrown its weight on the side of Protection, at least for Germany. It does not regard either Free Trade or Protection as an ideal, except in so far as universal Free Trade is a far-off goal, desirable, but only to be reached when the whole political character of the world is changed. Both Free Trade and Protection have their uses in the different stages of national development. "The fundamental propositions," set forth by Knies and adopted by all the historical school, "are that the economic constitution of society at any epoch on the one hand, and on the other the contemporary theoretic conception of economic science, are results of a definite historical development; that they are both in vital connection with the whole social organism of the period, having grown up along with it and under the same conditions of time, place, and nationality; that the economic system must therefore be regarded as passing through a series of phases correlative with the successive stages of civilisation, and can at no point of this movement be considered to have attained an entirely definite form; that no more the present than any previous

economic organisation of society is to be regarded as absolutely good and right, but only as a phase in a continual historical evolution; and that in like manner the now prevalent economic doctrine is not to be viewed as complete and final, but only as representing a certain stage in the unfolding or progressive manifestation of the truth."¹ Given the particular conditions of Germany, most of the writers of the historical school have held that their country was at the time of the Bismarckian tariff legislation of the late seventies in the stage where protection and vigorous State action in regard to commerce and industry were necessary, and their general views are best represented by the greatest of living economic historians, Professor Gustav Schmoller. In his *Mercantile System*, published in 1884, Professor Schmoller has given a clear exposition of this theory, though in an elaborate historical setting.² He traces the development (with special reference to Germany) of the economic unit from the village through the town and the territory to the state; "political organisms and economic organisms are by no means necessarily conterminous; and yet the great and brilliant achievements of history, both political and economic, are wont to be accomplished at times when economic organisation has rested on the same foundation as

¹ Ingram, *History of Political Economy*, p. 203.

² A masterly survey of the history of the tariff policies of the principal European countries, and of the United States of America, from Professor Schmoller's particular point of view, can now be read in his *Grundriss*, ii. pp. 558-651.

political power and order.”¹ Like Müller and List, and like all the members of the historical school, he emphasises the moral element, and the need for the consideration of the general interests of society. “All economic and political life rests upon psychical mass movements, mass sentiments, and mass conceptions, gravitating around certain centres.”² “The idea that economic life has ever been a process mainly dependent on individual action—an idea based on the impression that it is concerned merely with methods of satisfying individual needs—is mistaken with regard to all stages of human civilisation, and in some respects it is more mistaken the further we go back.”³ So the municipal economic policy of the Middle Ages, in spite of its local partiality and prejudices, was fully justified so long as the towns were the most important forces on the side of civilisation and economic progress. Later the place of the towns was taken by the territories, striving to make themselves into self-contained and self-conscious economic units. “What to each in its time gave riches and superiority, first to Milan, Venice, Florence, and Genoa, then later to Spain and Portugal, and now to Holland, France, and England, and to some extent to Denmark and Sweden, was a *state* policy in economic matters, as superior to the territorial as that had been to the municipal. . . . It was not only a question of state armies, fleets, and civil

¹ Schmoller, *The Mercantile System* (translated by W. J. Ashley), p. 3.

² *Loc. cit.*, p. 61.

³ *Loc. cit.*, pp. 3-4.

services ; it was a question rather of unifying systems of finance and economy which should encompass the forces of millions and whole countries and give unity to their social life.”¹ And this is the true conception of mercantilism ; it is, in fact, a great policy of national construction, “state making and national economy making at the same time. . . . The essence of the system lies not in some doctrine of money or of a balance of trade ; not in tariff barriers, protective duties, or navigation laws, but in something far greater :—namely, in the total transformation of society and its organisation, as well as of the state and its institutions, in the replacing of a local and territorial economic policy by that of the national state.”² And so to Professor Schmoller the practice and theory of the European states in the first half of the nineteenth century, as expounded by List, had a truer relation to their actual economic conditions than had the theories of Adam Smith.³

But this doctrine of Protection is a very relative one ; it all depends on the particular condition of a country at a given time. The policy of Bismarck in his tariff legislation may, on this reasoning, have been a sound one for Germany twenty-five years ago, when it was necessary to take all possible steps to consolidate the Empire and promote its economic development. It is defensible on precisely the same principles as those which led Adam Smith to defend the old Navigation Acts ;

¹ *Loc. cit.*, pp. 48–9. ² *Loc. cit.*, pp. 50–1. ³ *Loc. cit.*, p. 60.

but this very fact would condemn merely protective tariffs as a permanent policy. There is a higher stage of development, when the infant industries have become adult and are able to fight their own way in the world. To give them permanent protection is to keep them in perpetual tutelage. List himself wrote that "a nation which has already attained manufacturing supremacy can only protect its own manufacturers against retrogression and indolence by the free importation of the means of subsistence and raw materials, and by the competition of foreign manufactured goods."¹ England, he argued, had by 1841 reached the highest stage of development, and for her Free Trade was the right economic policy.² So also

¹ List, *loc. cit.*, chap. xv. The previous passage is interesting: "England will then give up the idea that she is designed to monopolise the manufacturing power of the whole world. She will no longer require that France, Germany, and North America should sacrifice their own manufactures in consideration of the concession by England of permitting the import, duty free, of agricultural products and raw material. She will recognise the legitimacy of protective systems in those nations, although she will herself more and more favour Free Trade," for the reason given above. He adds that England will cease to urge foreign nations to become Free Traders; "she will herself permit competition without regard to the foreign systems of protection."

² "Finally, history teaches us how nations which have been endowed by nature with all resources which are requisite for the attainment of the highest grade of wealth and power, may and must—without on that account forfeiting the end in view—modify their systems according to the measure of their own progress: in the first stage, adopting Free Trade with more advanced nations as a means of raising themselves from a state of barbarism, and of making advances in agriculture; in the second stage, promoting the growth of manufactures, fisheries, navigation, and foreign trade by means of commercial restrictions; and in the last stage, after reaching the highest degree of

Professor Schmoller writes: "That age could begin to think and act in the spirit of Free Trade which had left so far behind it the toilsome work of national development that it regarded its best results as matters of course";¹ and most of the other members of the German historical school of the present day seem to regard German industries as having reached the stage in which they no longer have need of what List called "educational tariffs" (*Erziehungszölle*).² Where they do defend the maintenance of the tariffs against the importation of agricultural produce and manufactured commodities, they do so, as we shall see later, on entirely different grounds.

The German historical school has taken up also an altogether different attitude towards State action from that adopted by the older English economists. It allows a very large sphere of action to the State, and the term applied to so many of its representatives—"Socialists of the Chair"—means that they go a considerable way towards that form of socialism which in its origin is associated with the name of Ferdinand Lassalle. As a philosophic doctrine,

wealth and power, by gradually reverting to the principle of Free Trade and of unrestricted competition in the home as well as in foreign markets, that so their agriculturists, manufacturers, and merchants may be preserved from indolence and stimulated to retain the supremacy which they have acquired" (chap. x.). He adds that Great Britain alone appeared (in his time) to have reached this final stage.

¹ Schmoller, *loc. cit.*, pp. 61-2.

² Cf. Schacht, "Inhalt und Kritik des Zolltarifentwurfs" in Schmoller's *Jahrbuch*, 1902; and Wagner, *Agrar- und Industriestaat*, 2nd ed., p. 223.

however, it is much older than that writer. Fichte had opposed to the "security" theory of the State the proposition that "it is the duty of the State to give each man that which is his due, then to establish him in the actual possession of his property, and then to safeguard him therein."¹ Many of the followers of Hegel, whose philosophic teaching tended "to glorify existing institutions, to see in Church and State the objective embodiment of the Absolute Idea,"² had regarded the Prussian State as the instrument appointed to bring about the social reformation. The term "state socialism" was adopted in Germany to indicate the antithesis to revolutionary socialism, and to mark a policy of reform, not by the destruction, but by the utilisation of the existing state organisation. So in Professor Wagner's articles on "Finanzpolitik und Staatsozialismus," published in 1887, it is asserted that "the chief aim of the State at present—in taxation and every other form of its activity—ought to be to alter the national distribution of wealth to the advantage of the working class. All politics must become social politics; the State must turn workman's friend."³

This does not mean merely the protection of the worker by factory legislation and his relief in time of poverty by the Poor Law system: it includes the ownership of railways and other industrial

¹ Fichte, *Der Geschlossene Handelsstaat*, bk. i., chap. i.

² Russell, *German Social Democracy*, p. 2.

³ Rae, *Contemporary Socialism*, p. 387.

enterprises (such as mines) by the State, the undertaking by the State of whatever enterprises are desirable, but cannot be, or are not likely to be, undertaken by private individuals or companies, and the establishment of State-aided compulsory insurances against sickness and accident, and State systems of old-age pensions. This state socialism found its expression in the social legislation of Prince Bismarck, which was inspired partly by a genuine interest in social reform, and partly by a desire (not in the least successful) to outbid the Social Democrats for popular favour.¹

A most important and beneficial influence was exercised on the industrial development of Germany by the new railway policy. The older State action in this matter had taken the form of subventions to private companies, and the purchase or direct construction of railways to only a limited extent. In 1875 eight lines were owned, and eight others were managed, by the Government, and thirty were privately owned and managed. The constitution of the Empire provided for the imperial control and supervision of railways, the building by the Government of railways "considered necessary for the defence of Germany or for the purpose of general commerce," and the settlement of railway rates. An Imperial Railway Board was set up in 1873, and Bismarck secured the passage through the Prussian Parliament of a law enabling the

¹ For a detailed description of the early stages of this policy, see Dawson, *Bismarck and State Socialism*.

Government to transfer the railways of that state to the Empire. This was intended to show an example, but the smaller states would not take the same line ; and consequently, with the exception of those in Alsace and Lorraine, the railways remained the property of the several states. The Prussian Government then set to work to buy up the lines in its own territory ; between 1879 and 1882 about six thousand miles were bought, and the process was continued, until, in 1906, the Prussian State railways were twenty thousand miles in extent. In the Empire, as a whole, the state Governments between them owned in 1906 railways over thirty-two thousand miles in length.¹ Not only has this policy of State ownership been financially extremely beneficial, but it has enabled the Governments to establish a scientific and coherent system of railway rates, including through rates, combined railway and shipping rates,² and special rates for export, which have undoubtedly been of great assistance in promoting German foreign trade. Other developments during this period were the commencement of German colonial expansion, the acquisition of territories in East Africa, South-west Africa, and South-east Africa, of Kaiser Wilhelm's Land and the Bismarck Archipelago ; and the inauguration of a policy of steamship subsidies.

¹ *Statistical Abstract for the Principal and other Foreign Countries* (1908), p. 279.

² The German-Levant and German-East Africa combined tariffs are the most conspicuous examples

The Chancellor's policy of social reform was exemplified by the Sickness Insurance Law of 1883, with its complement the Accident Insurance Laws of 1884 and 1885, and the Old Age and Infirmary Insurance Law of 1889 (now replaced by the enactment of 1899); these applied to the working-class population of the whole Empire, and there could be no contracting-out. Under the Sickness Insurance Laws, every manual worker and every person whose salary is below a certain amount must insure in some fund; usually he pays two-thirds and his employer one-third of the weekly contribution, and in return he receives free medical treatment and sick-pay during illness. The total number of persons insured under the terms of this law in 1907 was 12,945,000. The number included within the scope of the Accident Insurance Laws, which place the liability upon the employers alone, was 19,672,000. The Old Age Insurance system, which includes provision for permanent incapacity arising from ill-health, follows the same general lines; it is compulsory on all persons in receipt of incomes of less than £100 a year, with certain small exceptions, and is optional for a large number of other persons. The obligation to insure begins at sixteen years of age: employer and employed pay an equal share of the premium; the pension, to which the State gives a subsidy of £2 10s. per annum, can first be claimed at the age of seventy, or in the case of permanent disablement by ill-health, after five

years' insurance.¹ The total number of persons so insured in 1907 was 14,958,000; the number in receipt of Old Age Pensions was in July, 1909, 105,000, and of Invalidity Pensions 877,000, making a total of nearly one million persons so benefited. The schemes have hardly yet passed out of the experimental stage—it is not yet twenty years since they came into force, but there can be no question that they have constituted the most serious and most successful attempt yet made to deal with the problem.

¹ For full details on the whole subject, see the Board of Trade Report, 1899, and especially Brooks' Compulsory Insurance Report of the United States Commissioner of Labour; and for the most recent statistics see the *Statistisches Jahrbuch des deutschen Reiches* (1909), pp. 331–347. See also Götze-Schindler, *Taschenbuch der Arbeiterversicherung* (issued annually).

CHAPTER VI

GERMAN COMMERCIAL POLICY TO 1894

For some years after the adoption of the new tariff in 1880, German foreign trade expanded only very gradually; after steadily advancing up to 1883, it fell off again during the three following years. The following table shows the movement of German imports for home consumption and exports of domestic produce (exclusive of the precious metals) for the period 1880-91 :—¹

| Year. | Imports for Home Consumption. | | Exports of German Produce. | |
|-------|-------------------------------|--|----------------------------|--|
| | All Kinds. | Manufactured and Partly Manufactured Articles. | All Kinds. | Manufactured and Partly Manufactured Articles. |
| | Million £. | Million £. | Million £. | Million £. |
| 1880 | 138·6 | 38·4 | 142·4 | 82·1 |
| 1881 | 145·7 | 40·6 | 146·4 | 86·1 |
| 1882 | 153·9 | 42·7 | 156·8 | 92·5 |
| 1883 | 160·5 | 47·3 | 160·9 | 96·5 |
| 1884 | 160·3 | 45·0 | 157·5 | 98·9 |
| 1885 | 144·7 | 41·3 | 140·6 | 88·5 |
| 1886 | 142·0 | 41·7 | 146·8 | 95·6 |
| 1887 | 153·6 | 40·9 | 154·2 | 100·7 |
| 1888 | 161·8 | 43·1 | 157·6 | 102·0 |
| 1889 | 197·5 | 48·8 | 155·7 | 103·2 |
| 1890 | 204·6 | 48·2 | 163·6 | 105·6 |
| 1891 | 204·0 | 44·5 | 156·1 | 100·7 |

¹ *British and Foreign Trade and Industry* (Cd. 4,954, 1909), pp. 62-3.

It will be observed that for the five years 1880 to 1884, the average value of the total imports was 151·8 million pounds, whilst the average for the next four years was 150·5 million pounds, or about $1\frac{1}{4}$ million pounds a year less; the average of exports was for 1880 to 1884, 152·8 millions, and for 1885 to 1888, 149·8 millions, or about 3 million pounds less. After 1888 the figures are not altogether comparable, because of the inclusion of Hamburg and Bremen, which though long under negotiation, had been delayed by the return to Protection.¹ It will be noticed further that after 1888 there was a sharp rise in imports, whilst exports remained at about the same level, and the excess of imports over exports became relatively very large.

For the imperial exchequer the effects of the new customs system seem to have been altogether satisfactory. In 1877-8 the net revenue from the customs was 103·7 million marks, or 2·4 marks per head of population; by 1883-4 the amount had risen to 189·7 million, or 4·2 marks per head; and in 1889-90 a total was reached of 357·7 million, or 7·3 marks per head. The contributions to the imperial exchequer from the separate states, which had reached 70 million marks in 1878-9, sank rapidly until in the year 1882-3 the customs revenue not only supplied an amount equal to the old contributions, but provided a surplus which could be distributed amongst the states; and in

¹ Zimmermann, ii. p. 98.

1884-5 nearly 41 million marks were available for this purpose.¹

After 1880 the most noticeable feature in the history of the German tariff is the increase of the duties on agricultural products, coincident with the growth of the political power of the agrarian party. It is true that there were some slight increases in the duties on manufactured commodities, but these were not very important, and against them must be set some small reductions.² The agrarians complained of growing competition, and urged the necessity of protecting the food supply of the empire against the dangers of war; and they secured increases, of which the more important are shown in the following table :—³

| Commodity. | Rates of Duty per 100 Kilo. | | | |
|---------------------|-----------------------------|-------|-------|-------|
| | 1879. | 1881. | 1885. | 1888. |
| Wheat | 1 mk. | — | 3 mk. | 5 mk. |
| Rye | 1 " | — | 3 " | 5 " |
| Barley | 5 " | — | 1½ " | 2½ " |
| Flour | 2 " | 3 mk. | 7½ " | 10½ " |
| Meat of all kinds . | 12 " | — | 20 " | — |

As regards Germany's foreign trade, the exporters had feared at the time of the establishment of the new protective tariff that they might be hampered by retaliation on the part of foreign nations. Fortunately their fears in this direction were not realised, since the administration of Prince Bismarck was able, in most cases, either to make

¹ Blum, p. 306.

² Lotz, i. p. 177.

³ *British and Foreign Trade and Industry* (1909), pp. 210-11.

new treaties, or to secure the maintenance of the existing treaty relations. Political influence enabled Germany between 1880 and 1888 to establish, with such Eastern Powers as China, Japan, Corea and Siam, and also with Servia and Roumania, treaties which bound those Powers to reduce some of their existing duties, or, at least, not to increase the duties on German products, without imposing any corresponding obligation on Germany herself. Of another kind were the treaties with Italy, Spain, Greece and Switzerland, in which the reductions of duties were mutual, although on the German side they were not, except in the case of Switzerland, of marked importance. With other states, such as Austria-Hungary, Belgium, the Netherlands, France, Sweden and Norway, all that could be obtained was a continuance of "most favoured nation" treatment, the importance of which for Germany was enhanced by the fact that France had made treaties with the other countries, which gave her certain reductions of duties, and that under the "most favoured nation" clause Germany enjoyed the same advantages. In Great Britain, under the treaty of 1865, Germany continued to receive the same favourable treatment—a privilege which was extended to her also in the British Colonies.¹ As regards Russia and the United States the condition of affairs was by no means so satisfactory, for both those nations were particularly interested in the export of agricultural

¹ Lotz, ii. pp. 60-3.

produce, and therefore came into sharp conflict with Germany over the new tariff, which they not unnaturally regarded as directed specially against themselves. Russia had always refused to bind herself by treaties, even of the simplest kind, and from 1877 onwards her tariff wall was steadily rising—a fact which was not without influence on the movement of the German tariff between 1880 and 1890.¹ Germany's relations with the United States had long been based on reciprocal "most favoured nation" treatment, but this had been of little value; the situation was now very strained, and the German policy in regard to agricultural products must be counted as one of the strong motives for the high protective policy adopted in America by the McKinley Tariff.

On the whole Prince Bismarck was disinclined to the old policy of conventional tariffs; he seems to have been opposed to anything which would bind the hands of the Government in its defence of the commercial interests of the country. He adhered, with certain slight exceptions, to the simple system of the autonomous tariff; but by 1890 a considerable change had come over the political conditions of Germany, marked by the dismissal of Prince Bismarck and the appointment of General Caprivi as his successor. In home affairs the chief features of the new system were the abandonment of anti-socialist legislation and the attempt towards a "labour policy," illustrated by the international conference at Berlin; in par-

¹ Cf. Schmoller, *Grundriss*, ii. pp. 623-6.

liamentary politics the important development was the rise of the Centre or Catholic party.¹ In foreign policy, the independent attitude was abandoned, and the most striking example was furnished by the Anglo-German arrangement with regard to East Africa, under which Great Britain was given a free hand there and in Zanzibar, in exchange for the surrender of Heligoland to Germany. Commercial policy was now to be modified in the same way as the result of a number of converging influences.

The question of the food supply had suddenly become serious. The following table shows the movement of wholesale prices for wheat and rye in Prussia and Bavaria for the period 1880 to 1891 :—²

AVERAGE WHOLESALE PRICES.

| Year. | Wheat (per Imperial Quarter). | | Rye (per cwt.). | |
|-------|-------------------------------|----------|-----------------|----------|
| | Prussia. | Bavaria. | Prussia. | Bavaria. |
| | s. d. | s. d. | s. d. | s. d. |
| 1880 | 46 10 | 52 7 | 9 8 | 10 0 |
| 1881 | 47 1 | 53 3 | 10 1 | 10 5 |
| 1882 | 44 7 | 50 2 | 8 0 | 8 11 |
| 1883 | 39 7 | 45 3 | 7 4 | 7 7 |
| 1884 | 37 0 | 42 4 | 7 4 | 8 0 |
| 1885 | 34 8 | 39 11 | 7 2 | 7 9 |
| 1886 | 33 7 | 40 10 | 6 9 | 7 3 |
| 1887 | 35 2 | 40 1 | 6 3 | 7 1 |
| 1888 | 37 3 | 42 3 | 6 9 | 7 8 |
| 1889 | 39 2 | 43 6 | 7 9 | 7 11 |
| 1890 | 41 2 | 46 6 | 8 6 | 8 8 |
| 1891 | 47 6 | 50 4 | 10 5 | 10 2 |

¹ In 1887 the National Liberals were the largest party in the Reichstag with 99 members, the Centre came next with 98, and the Conservatives next with 80 ; at the election of 1890, 106 members of the Centre were returned and 73 Conservatives, while the National Liberals fell to 42.

² *British and Foreign Trade Industry* (1909), pp. 195 and 200. Cf. Dade, pp. 27-8.

It will be observed that, as a result of a number of causes, the agricultural duties did not prevent a continued fall in prices until 1886, but after that year there was an upward movement which became extremely sharp with the failure of harvests in 1890 and 1891. This was particularly the case in regard to rye, which is the chief bread-stuff for a very large part of the German population. In 1891 the Russian Government found itself compelled, in view of the acute economic distress in Russia, to prohibit the export of wheat and rye and other agricultural produce. At the same time the difficulties of the German exporters were increased by the adoption of the McKinley Tariff in the United States and by the marked movement towards higher protection all over Europe. Most of the nations with which Germany had treaties either gave notice of their termination, or were inclined to do so, and France was also about to renounce the treaties which she had made with various countries, and by which Germany had profited.

It had become necessary for Germany to re-adjust her policy. It was believed to be clearly impossible for her to continue in the old way and to make no effort to influence the tariffs of her neighbours. It was therefore decided to endeavour to continue the existing reciprocity arrangements, but to elaborate them into a new series of treaties, which should return to the old principle of reciprocal reductions of duties ; the German Empire was thus to imitate the example of France in 1860,

and take the lead in a readjustment for a definite period of the economic relations of the European states. The agrarian party clung to the protection of the autonomous tariff, and were opposed to any modifications; but under the prevailing circumstances they were not unwilling to see a temporary reduction of the duties. What they did object to was anything which would establish those reductions for any considerable number of years. On the other hand, the growth of industry not only rendered an abundant and cheap food supply desirable, but made it necessary that everything possible should be done to secure a large and assured foreign market for German manufactured products. The latter was the dominant consideration, but if German manufacturers were to export freely, foreigners must be allowed to have easier access to the German market.

“The conclusion of new international treaties with simple ‘most favoured nation’ treatment, without the settlement of tariffs, would indeed give Germany the possibility of securing an internal market for its own manufactures by means of an arbitrary protective tariff, but would provide not the slightest guarantee for the maintenance of that foreign market which is so essential for our export trade. In face of the world competition of the economically developed states, becoming ever fiercer with the rapid increase of production and its aids, permanent intercourse between them is conceivable only in the form of a reasonable

exchange of commodities, and this presupposes again a deliberate reciprocal limitation of free action in regard to tariffs. Under the present commercial conditions Germany cannot count on the maintenance of its export, unless by such limitations on its own side it secures to other nations the possibility of paying for its goods, wholly or in part, by their own products.”¹

The home producers, both agricultural and industrial, must consent to some sacrifices, for “concessions at the hands of agricultural nations, such as Austria-Hungary, Italy, and Russia, were to be obtained only by the reduction of certain duties on agricultural commodities; concessions at the hands of manufacturing nations, like Belgium and Switzerland, by the reduction of certain German duties on manufactured products.”² The manufacturers as a whole supported the new policy, since they were anxious for the growth of the export trade, and did not fear foreign competition in the home markets so much as formerly; the working classes also gave their support to it, and the opposition was in the main confined to the agrarians, who were called on to make the chief sacrifices, and were unwilling to do so for any length of time.

The new policy was inaugurated in December, 1891, by the commercial treaty with the Austro-Hungarian Empire, which for some time had been

¹ Government Memorandum, quoted in Lotz, i. p. 87.

² Dietzel, p. 367.

desirous of entering into closer relations with Germany, since the latter country was its most important market, taking on an average over one-half of the total Austro-Hungarian exports.¹ But at the same time, only about 10 per cent. of the German exports went to Austria-Hungary, and her imports from that country were only about 14 per cent. of the whole, so that for the purposes of negotiations Germany was in much the stronger position. Hungary was particularly interested in the reduction of the German agrarian duties, and in Austria itself there was a reaction against the protective policy of recent years. Following the treaty with Austria came others with Italy, Belgium, and at the beginning of 1892 with Switzerland. They were all to remain in force till the 31st of December, 1903, and unless then denounced were to continue indefinitely, but were to be terminable at one year's notice from either side. The bases of all these treaties were the same—reciprocal “most favoured nation” treatment and reduction of duties. The most important changes on the German side were in respect of the duties on agricultural products, which were reduced below the level of 1888, but in no case to the rates of 1885; thus the duties on wheat and rye were lowered from 5 to $3\frac{1}{2}$ marks per 100 kilog., on barley from $2\frac{1}{4}$ to 2, on flour from $10\frac{1}{2}$ to $7\frac{1}{4}$, on pork from 20 to 17, and on other fresh meat from 20 to 15; the cattle duties were also reduced. As regards

¹ Wuttke, p. 415.

manufactured articles moderate reductions were made in the import duties on joinery, glass and earthenware, some iron goods, textiles, paper, leather manufactures, and others. In all, it was estimated that articles of the classes affected by these reductions and by some abolitions of unimportant duties had been imported from the four countries concerned to the amount of 260 million marks on an average for the years 1888 to 1890.¹ On the part of the other contracting states there were general reductions of duties on German manufactured goods; and in a number of cases where reductions were not made, the contracting states bound themselves not to make an increase. The German exporters were by no means satisfied, for they had hoped to obtain greater reductions of hostile tariffs, and they overlooked the fact that they had, at any rate, prevented any further advances for a considerable period. They were, however, willing to accept the treaties, and though the agrarians made a strong opposition on certain points, they were not powerful enough to secure the rejection of the Government policy.

Then, however, agricultural conditions changed, and there was a fall in prices, due partly to improved harvests at home, and partly to the increase of imports into Germany from the United States and Roumania. The following table shows the movements of prices from 1891 to 1894 :—²

¹ Lotz, ii. p. 83.

² *British and Foreign Trade and Industry* (1909), pp. 195, 197, 200, 202; cf. Dietzel, p. 369.

AVERAGE WHOLESALE PRICES.

| Year. | Wheat (per Imperial Quarter). | | Rye (per cwt.). | | Wheat Flour (per cwt.). | Barley (per Imperial Quarter). |
|-------|-------------------------------|----------|-----------------|----------|-------------------------|--------------------------------|
| | Prussia. | Bavaria. | Prussia. | Bavaria. | Cologne. | Baden. |
| | s. d. | s. d. | s. d. | s. d. | s. d. | s. d. |
| 1891 | 47 6 | 50 4 | 10 5 | 10 2 | 15 6 | 30 6 |
| 1892 | 40 6 | 43 9 | 8 11 | 8 7 | 13 1 | 27 7 |
| 1893 | 32 6 | 35 9 | 6 9 | 7 0 | 11 1 | 28 2 |
| 1894 | 28 11 | 30 5 | 5 11 | 6 1 | 9 7 | 24 9 |

The result was that the Government had much more difficulty in carrying the second series of commercial treaties in the latter parts of 1893 with Servia, Spain, and especially Roumania. The last-named country was coming to be one of the most important sources of Germany's food supply, particularly during the conflict with Russia. In 1889 5 per cent. of the German supply of wheat came from Roumania., but in 1893 the amount had risen to 20·4 per cent., and to an even higher point in the case of rye.¹ The agrarian party were therefore strongly hostile to anything which would encourage the increase of the quantities imported from Roumania, whilst, on the other hand, the manufacturers, who sent, it was estimated, 100 million marks worth of goods a year to that country, desired a treaty which would still further develop their market. The new treaties, although supported by the whole force of the manufacturers, were confirmed by the Reichstag only after a most strenuous opposition from the agrarians. The conflict reached its height

¹ Lotz, ii. p. 110.

over the treaty with Russia, which was in some ways the most important of all. It has already been remarked that the commercial relations between that country and Germany had for some time been distinctly strained, but the trade between the two was, nevertheless, very considerable. In 1890 Russia imported from Germany goods to the value of £10,300,000—30 per cent. being for manufactured goods—and exported to her goods to the value of £27,000,000—95 per cent. of these latter being foodstuffs, raw materials, and unfinished goods.¹ In 1891 Russia sent into Germany more than one-half (53 per cent.) of the latter's total import of cereals, and this quantity taken by Germany amounted to about one-sixth of the total Russian export of the kind. Germany sent to Russia iron and steel goods, chemicals for use in manufactures, coal and coke, porcelain and cement, and a very large quantity of flour. Moreover, she had a large transit trade with that country, for a considerable proportion of the Russian supplies of raw cotton and wool came to her through Germany.

Germany had two grounds of complaint against Russia. The highly prohibitive tariff, which, after eight increases of duties between 1881 and 1891, culminated in the latter year in a new general scheme of duties and reached the highest point in Russian protective policy since 1850, affected all nations equally; but the discrimination against land-borne in favour of sea-borne goods hindered the com-

¹ Wuttke, p. 419, and *Foreign Office Report*, p. 41.

petition of Germany with Great Britain in the supply of coal and iron, and in the carrying trade. Russia had hitherto stood apart from the treaty system, in her unwillingness to bind her customs tariff for any definite time, but now she was not disinclined to modify her policy, particularly as the treaties already made by Germany put her in an extremely difficult position. Those treaties had given reductions of duties on agricultural produce to other nations, who thereby enjoyed a distinct advantage over Russia. After the conclusion of the first series of treaties, Russian corn paid a duty 43 per cent. higher than that imposed on the products of the favoured nations—Austria-Hungary, Italy, Switzerland, Belgium, by the treaties,¹ and the United States, Argentina, Servia, Bulgaria, and Turkey, under the “most favoured nation” clause. Roumania was also about to be included.

Negotiations between the two Powers had commenced towards the end of 1891, by Russia proposing that Germany should grant her the terms of the conventional tariff in regard to most agricultural products, together with free entry for a number of raw materials, and offering in return to make some concessions, but not on metals, textiles, chemicals, or sugar. The German Government replied that the proposals were unacceptable, since they secured to Russia reductions on 80 per cent. of her exports, and gave practically nothing in

¹ *Foreign Office Report*, p. 42.

return; it suggested, therefore, that Russia should remove the obstacles to commercial intercourse on the frontier by simplifying the customs regulations, equalise the duties on sea- and land-borne goods, and reduce the duties on about four-fifths of the tariff groups of commodities. Negotiations were continued after the control of Russian commercial policy had passed into the hands of M. Witte, who proposed to establish a minimum and maximum tariff—the minimum to be a slightly modified version of the tariff of 1891, for the benefit of those states which gave Russia “most favoured nation” treatment, and the maximum to be the same tariff increased in various cases and against various countries. In October, 1892, Russia offered to admit German goods under the minimum tariff, and to abolish the preferential treatment of sea-borne trade; and in March of the following year the German Government replied with its final proposals. It offered the conventional tariff terms in return for considerable reductions on the Russian minimum tariff, and the promotion of trade by a modification of the customs regulations. On the refusal of the Russian Government to consider these proposals and the failure of an attempt at a conference of experts, the actual tariff war began. From August 1st, 1893, German goods imported into Russia became subject to the maximum tariff, which imposed on them surtaxes amounting to at least 30 per cent. on manufactured goods and 20 per cent. on semi-manufactured articles. In

the same month Germany replied by imposing surtaxes of 50 per cent. on all Russian goods liable to customs duties—one result being that the duty was about 115 per cent. higher on Russian bread stuffs than on those imported from America, Hungary, Roumania, and Argentina. In return, the Russian Government again increased the tariff against German produce by 50 per cent., and raised the shipping dues against German vessels. It extended these measures to Finland; and the German Government consequently applied the 50 per cent. surtaxes to goods imported from the Grand-Duchy also. All these various increases had been made by the 16th of August, but the strain on both sides was very much too severe; early in September fresh negotiations were opened, and on October 16th the first conference was held at Berlin.

“The statistics published by the German Government show that after the outbreak of the tariff war, the German export trade to Russia had been partially paralysed. The export of locomotives ceased; the export of wrought iron was one-third of the average in the preceding year, and of cement less than one-half. And in addition to the losses of the German exporters and manufacturers, it became apparent that a large number of Germans lived by the import and handling of Russian products, and they were, of course, severely affected. The railways, which are State property, were run, on certain branches, at a loss. German ships were

practically excluded from Russian ports, and the German coast towns, interested in the carrying trade, were heavy sufferers. . . . With the approach of winter the situation became worse, as the Baltic ports were closed by the ice. The large trade in extra-European goods, which had been carried on through Germany, was crippled. The transit of raw cotton through Germany for the Russian market was, in 1893, only one-half of what it had been in the preceding year. And in addition to the economical losses, a grave danger was imminent. There is ample proof that the tariff war, as it proceeded, was regarded by both responsible parties as likely to lead to a state of things dangerous for the peace of Europe."¹ On the other side, Russia was suffering from the injury inflicted on her agricultural exports, particularly after the good harvest of 1893. The following table shows the movement of imports and exports between the two countries for the years 1889 to 1894 inclusive.² It will be remembered that the acute struggle was in the latter half of 1893.

| Year. | German Imports from Russia. | German Exports to Russia. |
|-------|--------------------------------|------------------------------|
| | Million £. | Million £. |
| 1889 | 25·6 | 8·6 |
| 1890 | 25·7 | 9·0 |
| 1891 | 28·5 | 7·1 |
| 1892 | 18·8 | 6·4 |
| 1893 | 17·3 | 6·7 |
| 1894 | 21·6 | 8·4 |

¹ *Foreign Office Report*, p. 46.

² *Statistical Abstract for the Principal and other Foreign Countries* (1900), pp. 166-170; the figures have been converted at the rate of 11·8d. to the mark.

Both sides were now anxious to come to terms, and political motives combined with economic interests to bring about this result. Russia desired a treaty with Germany as a first step in a series of such treaties, and Germany was anxious to do something to counterbalance the growing Russo-French alliance. The outcome of this less hostile disposition on both sides was the treaty signed on February 10th, 1894. The German Government declared that German trade, commerce, and shipping were profoundly interested in the reduction of the Russian duties, and that, on the other hand, the freer importation of Russian grain would not seriously affect German agricultural interests, since the really dangerous menace was from the United States, Roumania and other countries which already enjoyed treaty privileges. The agrarian party fiercely resisted the treaty, but it was carried after a hard struggle.

It was a compromise. Russia received "most favoured nation" treatment, which gave her the benefit of the lower grain duties; she also secured the abolition of duties on some of her products, such as flax, oil-seed and wool, and an advantage over the United States in the duty on oil. Germany, for her part, obtained a reduction of duties on 120 articles—as, for instance, 20 per cent. on leather goods, 17 to 20 per cent. on unwrought iron, 18 per cent. on iron machinery, 17 to 20 per cent. on pottery, 17 per cent. on paper, 12 to 30 per cent. on woollen tissues. Both parties bound

themselves for ten years not to increase the duties on certain specified goods. The treaty also provided that Russia should abandon the distinction between sea-borne and land-borne goods, whilst Germany undertook that Russian goods should not be subject to higher rates than domestic goods for carriage on the Prussian State railways. The following table shows the movement of trade between the two countries after 1894 :¹

| Year. | German Imports from Russia. | German Exports to Russia. |
|-------|--------------------------------|------------------------------|
| | Million £. | Million £. |
| 1894 | 21·6 | 8·4 |
| 1895 | 27·9 | 10·2 |
| 1896 | 30·9 | 11·4 |
| 1897 | 34·7 | 13·2 |
| 1898 | 36·1 | 14·9 |
| 1899 | 31·2 | 19·0 |
| 1900 | 31·7 | 17·1 |
| 1901 | 33·5 | 16·2 |
| 1902 | 38·9 | 16·1 |

Thus Germany had returned to the system of the “autonomous” and “conventional” tariffs; the former applied against all those countries which had not made with her a commercial treaty providing for reciprocal reductions of duties, and the latter containing all the lower rates of duty established by treaties and generalised to treaty powers by the force of the “most favoured nation” clause. But it is important to note that the system adopted differed from that now employed by France; there the Government can increase the minimum (“con-

¹ *Statistical Abstract for the Principal and Other Foreign Countries* (1908), pp. 204-7.

ventional") as well as the maximum ("autonomous") rates at any time, whilst the German Government, in its treaties, bound itself not to increase the tariff rates for a term of years.

The Russian treaty seems to have been satisfactory in its effect, but this was by no means the case with all the others, and in particular the settlement of Germany's commercial relations with the Austro-Hungarian Empire was not followed by results equal to the expectations of the German exporters. They had hoped for a great expansion of the Austrian market, but their export of textile manufactures actually declined for some time.¹ There was an increase in respect of metals, but in the early years at least, after the conclusion of the treaty, the development of trade between the two countries was only very gradual. The following table shows its course for the years 1893-1902 :

| Year. | Exports of German Produce and Manufactures to Austria-Hungary. | Imports into Germany of Austro-Hungarian Produce and Manufactures. |
|-------------|---|---|
| | Million £. | Million £. |
| 1893 | 16·7 | 28·1 |
| 1894 | 17·3 | 28·1 |
| 1895 | 18·4 | 25·2 |
| 1896 | 19·6 | 26·9 |
| 1897 | 19·9 | 29·6 |
| 1898 | 20·9 | 30·8 |
| 1899 | 22·1 | 35·2 |
| 1900 | 23·9 | 34·6 |
| 1901 | 22·8 | 33·6 |
| 1902 | 23·6 | 34·2 |

¹ The average import of textiles into Austria-Hungary from Germany from 1892-4 was 33·8 million kronen; 1897-9, 30·8 million kronen (Wuttke, p. 439).

The Austrian Empire sent chiefly agricultural produce to Germany, and the general effect of the treaty (allowing for the fall in agricultural prices after 1891) seems to have been to increase the competition which the German agrarians had to meet, without securing any considerable increase of the market for the manufacturers.¹ The negotiations with Spain brought Germany into yet another tariff war. In 1893 a treaty had been signed between the two countries, which was accepted by the German Parliament, but rejected by the Spanish. Thereupon the German Government withdrew the "most favoured nation" treatment of Spanish goods, and subjected them to the autonomous tariff; the Spanish Government did the same for German goods. Germany, in her turn, imposed a surtax of 100 per cent. on all commodities coming from Spain. Spain then proposed in 1896 that both sides should make use simply of the lowest rates of the autonomous tariff—terms which Germany accepted. But inasmuch as France, England, Switzerland, and other countries enjoyed in Spanish markets preferences over Germany, the Government of the last-named country soon became anxious to obtain more satisfactory terms, and at the time of the purchase of the Caroline Islands, in the beginning of 1899, a fresh treaty was signed, securing reciprocal "most favoured nation" treatment.²

¹ Wuttke, p. 458.

² Zimmermann, ii., pp. 308, 309.

A word must be said as to the commercial relations of Germany to two other countries, the United Kingdom and the United States. Ever since the treaty of 1865, Germany had enjoyed the advantages of the "most favoured nation" clause in the United Kingdom and in all its colonial possessions. In 1897 the Canadian Government granted a reduction of duties on British goods alone, and Germany immediately protested against this on the ground that it violated the terms of the treaty of 1865. The British Government, therefore, gave a year's notice of the renunciation of the treaty, but suggested that it would be willing to undertake negotiations for a fresh arrangement. Germany then decided to continue the existing arrangement so far as concerned the United Kingdom and those of her colonies which did not discriminate between British and German goods; but against Canada she applied her autonomous tariff, to which Canada replied by the imposition of a surtax of $33\frac{1}{3}$ per cent. on German goods. The arrangement as to the United Kingdom has been renewed, for periods of two years, by legislative enactment from time to time—the latest occasion being in December, 1909—but so far no new treaty has been made.¹ With the United States German relations had almost always been far from satisfactory. By the

¹ By a provisional agreement made in February, 1910, the tariff war between Canada and Germany came to an end; the former country remitted the surtax on imports from Germany, and Germany granted to Canada the benefit of the conventional rates on certain commodities (including grain, rough timber, meat, and some fruits).

Saratoga Convention, signed in 1891, Germany abandoned many of the restrictions on the import of American meat, and gave the United States a right to participate in certain reductions of duties, whilst she received in return "most favoured nation" treatment for her sugar products. But this was not of much use to her, since the United States subsequently imposed surtaxes upon all bounty-fed sugar, and in spite of all its efforts the German Government could not secure preferential treatment.¹

¹ A few other treaties were made towards the end of the century chief being the agreement with Japan in 1896.

CHAPTER VII

THE REVIVAL OF THE PROTECTIONIST MOVEMENT, AND THE NEW GENERAL TARIFF

COUNT CAPRIVI had succeeded in carrying the commercial treaties, but he had incurred the fierce hostility of the agrarians, and soon after the conclusion of the Russian treaty they were strong enough to secure his overthrow and his replacement by Prince Hohenlohe. The period from the latter's succession to office until the close of the century was characterised chiefly by the revival of the protectionist agitation, particularly amongst the agrarians. But before noticing the causes of this agitation and its results, it will be well to review some of the features of the industrial development of Germany in the first three decades after the foundation of the Empire.¹

The population of the Empire increased from 41 millions in 1872 to 59·5 millions in 1904, and is

¹ See *Statistisches Handbuch für das deutsche Reich*, 2 vols., 1907; "Veritas," *The German Empire of To-day*; W. H. Dawson, *The Evolution of Modern Germany*; Eltzbacher, *Modern Germany*; W. J. Ashley, *Progress of the German Working Classes*; *British and Foreign Trade and Industry* (1909).

continuing to increase to the extent of some 850,000 persons a year.¹ The following table shows the development of Germany's foreign trade :²

| Period. | Average Annual Value of Imports for Home Consumption (Merchandise only). | | Average Annual Value of Exports of German Produce (Merchandise only). | |
|------------|--|---|---|---|
| | Total. | Manufactured and Partly Manufactured Goods. | Total. | Manufactured and Partly Manufactured Goods. |
| | Million £. | Million £. | Million £. | Million £. |
| 1872-4 ... | * | * | 113·7 | * |
| 1875-9 .. | * | * | 132·3 | * |
| 1880-4 ... | 151·8 | 42·8 | 152·8 | 91·2 |
| 1885-9 ... | 159·9 | 43·2 | 151·0 | 98·0 |
| 1890-4 ... | 198·9 | 44·0 | 152·5 | 98·6 |
| 1895-9 ... | 232·8 | 49·1 | 181·3 | 116·9 |
| 1900-4 ... | 287·0 | 57·0 | 235·6 | 154·2 |

* Cannot be given.

The total imports thus increased from £30 7s. 2d. per head of population on the average for 1880-4 to £4 19s. on the average for 1900-4, whilst the total exports increased during the same period from £3 7s. 8d. to £4 1s. 3d.

The average annual production of coal rose from 31·8 million tons in 1870-4 to 110·7 millions in 1900-4,³ whilst the average annual output of pig-iron rose in the same interval from 1·8 to 8·9 million

¹ Cf. Troeltsch, pp. 10-11.

² The comparability of German trade statistics over a long period of years is limited by a number of considerations: (i.) The statistics are very incomplete for the earlier years; (ii.) Hamburg and Bremen were not included in the Zollverein till 1889; (iii.) the value of ships and of the improvement trade for home account has been included only since 1897; (iv.) the free port areas of Hamburg and three smaller ports have been included in the *Wirtschaftsgebiet* only since March 1, 1906.

³ *British and Foreign Trade and Industry* (1909), pp. 166-7.

tons.¹ The average production of crude steel was only 0·3 million tons for the quinquennial period 1870-4; for 1900-4 it had risen to 7·3 million tons.² The home production of zinc averaged 60·3 thousand tons, and the consumption 33·8 thousand tons, in 1870-4; by 1900-4 the amounts had risen to 174·6 and 160·4 thousand tons respectively.³ The average annual production of lead was in the earlier period 57·6 thousand tons, and the consumption 37·4 thousand; thirty years later the average production had risen to 133·6 thousand tons, and the consumption to 165·6 thousand.⁴ The number of spindles employed in the cotton industry increased from an average of 4,262,000 for the four years 1871-4 (it will be remembered that the number was greatly increased by the acquisition of Alsace-Lorraine in 1871) to an average of 8,450,000 for the quinquennium 1900-4,⁵ and the average annual consumption of raw cotton rose from 2·2 million cwt. in the former to 6·8 millions in the latter period.⁶ The estimated annual consumption of raw sheep and lambs' wool averaged 174·5 million lbs. in 1875-9, and 345·3 million lbs. in 1900-4.⁷ The net tonnage of the German mercantile marine (vessels of 17½ gross tons and

¹ *Loc. cit.*, pp. 168-9. The great development of the German iron industry was rendered possible by the discovery by the Englishman, Thomas, of a process for the utilisation of phosphoric ores, which constitute the great bulk of Germany's native supplies.

² *Loc. cit.*, pp. 170-1.

³ *Statistisches Handbuch für das deutsche Reich*, i., p. 489.

⁴ *Loc. cit.*, i., p. 490.

⁵ *British and Foreign Trade and Industry* (1909), p. 157.

⁶ *Loc. cit.*, p. 159.

⁷ *Loc. cit.*, p. 165.

upwards) increased from 982,000 tons in 1870 to 2,353,000 tons in 1904; the annual net tonnage of vessels built and added to the register advanced from 32,600 tons in 1878 (the first year for which statistics are available) and an average of 50,345 for the period 1880-4 to an average of 113,463 in 1900-4.¹ The length of railways open to traffic increased from an average of 21,719 miles in 1880-4 to an average of 32,232 in 1900-4, whilst the average weight of goods annually conveyed rose from 187 million tons in the former to 370 million tons in the latter period.² In the application of science to industry, notably in the production of chemicals and dyes, but in other branches of industry also, there was a very marked advance—aided by an educational system which on the technical and scientific side was undoubtedly then, and in some respects probably is still, superior to anything existent elsewhere, and by an enlightened policy on the part of the manufacturers.³ Much aid has been given to the industrial development of the country by a well-conceived railway transport policy, rendered easy by the State ownership of railways.

There was a very marked improvement in the condition of the working classes.⁴ Wages were

¹ *Loc. cit.*, pp. 114-6 and 121.

² *Loc. cit.*, pp. 127-8.

³ For some examples see Sir J. Dewar's Presidential Address to the British Association at Belfast in 1902.

⁴ On the rise of wages, see Ashley, *Progress of the German Working Classes*, pp. 82-106; and R. Kuczynski, *Die Entwicklung der gewerblichen Löhne seit der Begründung des deutschen Reiches*. On Food Prices, see *British and Foreign Trade and Industry* (1909), pp. 193-205; and the *Statistisches Handbuch für das deutsche Reich*, i., 474-480. For much information as to the conditions of life of the German working classes, see the Board of Trade Report on *Cost of Living in German Towns* (1908).

rising fairly steadily throughout this period, and particularly in the last decade of the nineteenth century ; in spite of marked fluctuations, the prices of foodstuffs showed a pronounced downward movement until about 1894-6, and though after that date an upward tendency became manifest, there was no return to the old level. A gradual reduction in the hours of labour ; the establishment of old age and invalidity pensions, and of compulsory sickness and accident insurance ; greater attention to housing reform ; an enlightened municipal policy ; and the growth of trade unionism, all combined to bring about a substantial amelioration of the conditions of life for the great masses of the German people.

It is important to observe also that the industrialisation of Germany is marked by the same general features as the economic history of England after the industrial revolution. There is the same rapid growth of the towns (an increase as astonishing as that of the American cities),¹ and the same decline in the agricultural population. In 1871 the "urban population"—*i.e.*, in communes having over 2,000 inhabitants—was 36 per cent. of the total population ; by the census of 1905 the proportion had increased to 57 per cent. Agriculture is, however, still a very important occupation, though in the interval between the industrial censuses of 1895 and 1907 it had lost the foremost place. In 1895 the number of persons returned as engaged in agriculture and kindred occupations (including fishing) was

¹ Cf. Shaw, *Municipal Government in Continental Europe*, chap. v.

8,293,000, and by 1907 this number had increased to 9,883,000; but meanwhile the numbers engaged in industry and mining rose from 8,281,000 to 11,256,000.¹

At the same time, and as a natural consequence, there has been an increasing tendency towards dependence on foreign food supplies,² as appears from the following table:³

AVERAGE ANNUAL CONSUMPTION (FOR ALL PURPOSES)
OF WHEAT AND RYE.

| Period. | Wheat and Wheat Flour. | | Rye. | |
|------------|--|---|--|---|
| | Home Grown (Production less Domestic Export). | Foreign (Imported for Home Consumption). | Home Grown (Production less Domestic Export). | Foreign (Imported for Home Consumption). |
| 1880-4 ... | 1,000 Cwt. 42,247 | 1,000 Cwt. 11,910 | 1,000 Cwt. 109,712 | 1,000 Cwt. 14,412 |
| 1885-9 ... | 47,315 | 9,317 | 114,861 | 14,507 |
| 1890-4 ... | 52,490 | 19,238 | 136,618 | 12,394 |
| 1895-9 ... | 57,537 | 28,650 | 162,310 | 17,056 |
| 1900-4 .. | 65,194 | 38,072 | 176,239 | 15,870 |

The prices of agricultural produce, though there were marked fluctuations, showed throughout the greater part of this period, until about the middle of the last decade of the nineteenth century, a pronounced downward tendency; thereafter the fall was arrested, and an upward tendency began to manifest itself. There still remains a considerable difference between the various parts of the Empire, largely because of the distance in many cases of the

¹ *Statistisches Jahrbuch für das deutsche Reich*, p. 14. (Cf. Troeltsch, p. 25.

² Cf. Voigt, "Deutschland und die Weltmarkt" (in *Handels- und Machtpolitik*), pp. 154-79.

³ *British and Foreign Trade and Industry*, pp. 178 and 180.

markets from the place of production and the difficulties of transport, in spite of the growth of German railways and canals.¹ The main distributing centre for the grain-producing provinces of Eastern Prussia is Danzig, whilst foreign wheat from Roumania and Southern Russia, as well as from North and South America, enters chiefly at Cologne and Mannheim, by way of the ports of the Low Countries. The level of wheat prices is consequently appreciably lower in the eastern and central parts of Germany than in the west and south.²

Thirdly, imports greatly exceed exports. In the Free Trade period, from 1872 to 1879, the average annual imports were valued at £190,000,000, and the exports at £130,000,000; and although the latter were admittedly under-estimated, there yet remained a considerable excess of imports over exports. After 1879 the statistics were improved, and at first the new protectionist system acted as a drag. The import trade declined for a time, and in 1880 exports were slightly in excess of imports. From then till 1888 the two were in practical equilibrium, but after 1888 and the inclusion of the Hanse towns, the turn came, and the following table shows the "special trade" of Germany between 1890 and 1904 :³

¹ Troeltsch, pp. 29 and 30.

² Cf. table in *Statistisches Jahrbuch*, 1909, p. 271.

³ *British and Foreign Trade and Industry* (1909), p. 63. The amount of German capital invested abroad was estimated in 1905 at from £1,300,000,000 to £1,500,000,000.—Professor Arndt, in *The Statist*, October 14, 1905; and cf. *Die Entwicklung der deutschen Seeinteressen*, published by the German Admiralty, 1905 (pp. 135–200).

| Period. | | | | Average Annual Value of Imports for Home Consumption. | Average Annual Value of Exports of German Produce. | Average Annual Surplus of Imports over Exports. |
|---------|-----|-----|-----|---|--|---|
| | | | | Million £. | Million £. | Million £. |
| 1890-4 | ... | ... | ... | 198·9 | 152·5 | 46·4 |
| 1895-9 | ... | ... | ... | 232·8 | 181·3 | 51·5 |
| 1900-4 | ... | ... | ... | 287·0 | 235·6 | 51·4 |

During the same period there was a marked increase in the import of manufactured articles. The following table gives the figures for the fifteen years from 1890 to 1904:¹

| Period. | | | | Average Annual Value of Imports of Manufactured Goods (<i>Fabrikate</i>). |
|---------|-----|-----|-----|---|
| | | | | Million £. |
| 1890-4 | ... | ... | ... | 44·0 |
| 1895-9 | ... | ... | ... | 49·1 |
| 1900-4 | ... | ... | ... | 57·0 |

It should be added that German industry has been characterised more than that of any other country, with the exception of the United States, by the rise of trusts, or by their practical equivalent in economic effect, the Kartels, which now number over four hundred, and, though strongest in the coal and iron industries, are gradually extending themselves over the whole range of German industry. "They are combinations for maintaining prices (and more or less for the joint marketing of the produce) by a number of concerns which retain

¹ *British and Foreign Trade and Industry* (1909), p. 63.

their own independence as producers.¹ And these Kartels have notoriously sought to relieve the German market in times of depression by sending abroad below the domestic price. . . . The Kartels have, however, advanced considerably beyond the point of lower foreign prices; they have devised a plan whereby export is assisted and encouraged by the grant of bonuses by the several syndicates to their members and customers. This plan appears to have been first introduced in 1891, and it would seem to have been more systematically established in 1897. In the period of expanding trade which soon followed, it was quite unnecessary, but in 1901 the reaction again came."² Finally, it must be pointed out that neither the tariff nor the Kartels (though it is one of the commonest claims of the latter—and of the American trusts—that they can regulate industry and give it a more equable course) have been able to guard Germany against recurring periods of reaction, such as that through which the country passed between 1901 and 1903, and the more pronounced depression of 1908.³

¹ It is in this respect that the Kartels chiefly differ from the American trusts.

² W. J. Ashley, *The Tariff Problem*, pp. 120–1. For a detailed description of the organisation and working of the Kartels, see Raffalovich, *Trusts, Cartels et Syndicats*, and the Consular Reports for the Frankfurt District, 1903, 1906, and 1908. On one special feature of the Kartels, see Morgenroth, *Die Exportpolitik der Kartelle*. Much useful information is contained in the Report of the Imperial German Commission on Kartels, and in the monthly review entitled "*Kartell-Rundschau*."

³ The nature and extent of the first of these depressions, which alone falls within the period under consideration in this chapter, have been

It has already been remarked that the closing years of the nineteenth century witnessed the revival of protectionist movements, arising chiefly amongst the agrarians. We have observed that after 1891 there was a somewhat rapid decline in the price of agricultural produce, particularly grain. This was due in part to the effects of the treaties, which opened the German market more than before to foreign grain, and partly to the good harvests. The agricultural party ascribed the fall solely to the tariffs, and until 1896-7 their great cry was the fall of prices;¹ but then a turn came. The table on p. 113 illustrates the movement of prices from 1894 to 1903. It will be seen that there was a pronounced rise between 1894 and 1898.²

After about 1896 they raised the new cry of "Leutenot," declaring that the rapid development of industry was denuding the land of labourers, and that the agricultural interest was suffering from low prices because of the reciprocity treaties made for the sake of the industrial exporters, and at the same time was hampered by the withdrawal of

fully examined in the volumes published (1903 *seq.*) by the *Verein für Sozialpolitik* under the title *Die Störungen in deutschen Wirtschaftsleben während der Jahre 1900 ff.* The extent and duration of the depression varied with the different industries (it seems to have been most pronounced in the engineering and electrical industries, where there were for a time large reductions in the numbers employed, whilst in the cotton and linen industries recourse was had only to short time), and some were practically unaffected. In no case does an industry appear to have received a serious set-back.

¹ Lotz, ii., p. 134.

² *British and Foreign Trade and Industry* (1909), pp. 195, 197, 200, and 202. Cf. Dietzel, p. 369.

labourers from the rural districts, which increased the agricultural cost of production. The agrarian party therefore denounced the "export orgy," and the policy which furthered the exportation of manufactured articles by the importation of agricultural produce. They put forward a demand for duties protecting all branches of agriculture—grain, cattle, garden products, etc.¹

AVERAGE WHOLESALE PRICES.

| Year. | Wheat (per Imperial Quarter). | | Rye (per Cwt.). | | Wheat Flour (per Cwt.). | Barley (per Imperial Quarter.) |
|----------|-------------------------------|----------|-----------------|----------|-------------------------|--------------------------------|
| | Prussia. | Bavaria. | Prussia. | Bavaria. | Cologne. | Baden. |
| | s. d. | s. d. | s. d. | s. d. | s. d. | s. d. |
| 1894 ... | 28 11 | 30 5 | 5 11 | 6 1 | 9 7 | 24 9 |
| 1895 ... | 30 0 | 32 4 | 6 1 | 6 6 | 10 1 | 25 0 |
| 1896 ... | 32 9 | 35 9 | 6 1 | 6 6 | 10 8 | 26 11 |
| 1897 ... | 35 5 | 40 5 | 6 4 | 7 4 | 12 0 | 27 7 |
| 1898 ... | 39 10 | 42 6 | 7 3 | 7 6 | 13 2 | 30 4 |
| 1899 ... | 33 2 | 36 5 | 7 2 | 8 4 | 11 1 | 28 11 |
| 1900 ... | 32 1 | 35 7 | 7 2 | 7 9 | 10 11 | 27 9 |
| 1901 ... | 34 8 | 37 8 | 7 1 | 7 8 | 11 0 | 27 4 |
| 1902 ... | 35 2 | 37 1 | 7 2 | 7 5 | 10 10 | 27 3 |
| 1903 ... | 33 2 | 35 10 | 6 7 | 7 4 | 10 10 | 27 1 |

Moreover, the time for the renewal of the treaties was approaching, and it became necessary for the Government to prepare for negotiations. It proposed to do so by the adoption of a new tariff which should contain higher rates of duty, and should also be much more specialised and detailed than the tariff of 1879. It believed that the higher the rates of the tariff, the better would be the terms which could be obtained from foreign nations, and

¹ Dietzel, pp. 370-3; cf. Lotz, ii. p. 137.

also that it was desirable to introduce greater specialisation into the tariff schedules in order to enable reductions to be made on any one article, without this involving reductions on a number of others.¹ The basis of the scheme was to be the simultaneous protection both of agriculture and manufactures; but the strong agrarian movement, which had been going on since 1893 and found its representation in the *Bund der Landwirte*, directed the new policy mainly in the interests of the large landowners. The new Tariff Bill introduced by the Imperial Government in 1901 was consequently the subject of a fierce and protracted Parliamentary conflict, and was not finally enacted until December, 1902. In view of the proposed negotiations for the renewal, with modifications, of the commercial treaties, it was not, however, to come into force until such time as the Government should appoint.

The tariff so enacted was the "general tariff"—that is to say, the rates of duty which it contained were to be levied on goods coming from all

¹ "It frequently happens that another nation lays stress on securing a reduction of rates on certain specialities, and is disposed to pay for this concession with one equally advantageous to us. But if now the Customs Act be made up too summarily, and these specialities are bunched together with many other articles under one head, we must lower the rate on the whole group for the sake of one article. The result of that would be that third nations, having the advantage of 'most favoured nation' clauses, would profit by the reduction of the duties on the other commodities included in the same group, without having to pay an equivalent of their own therefor. The more specialised the Customs Act, the more compensation material there would be for treaties; and the more general, the less there would be" (Dietzel, p. 376, summarising the argument of the Imperial Minister of the Interior).

countries which should not conclude treaties with the German Empire providing for reciprocal reductions of duties, or should not, by virtue of the "most favoured nation" clause in any treaty, be admitted to the enjoyment of such reductions as Germany might make in the new treaties; the result of the extension of the reductions made in favour of any one country to all the other contracting powers by the "most favoured nation" clause would be to create a scale of duties—the "conventional tariff"—which would be lower than the "general tariff." But there was one important provision, which was the main cause of the prolonged conflict; whilst in respect to all other commodities the reductions which might be made in the treaties to be negotiated with other powers were unlimited, as regards rye, wheat and spelt, malting barley and oats there was in each case a specified minimum below which reductions might not be made. These minimum rates were considerably higher than the old treaty tariff rates, as appears from the following table:

| | Rye. | Wheat and Spelt. | Malting Barley. | Oats. |
|--|-------|---------------------|--------------------|-------------------|
| | s. d. | s. d. | s. d. | s. d. |
| Rates of Duty per Cwt. as fixed by the Treaties of 1892 ... | 1 9 | 1 9 | 1 0 | 1 4 $\frac{3}{4}$ |
| Minimum Rates prescribed by Law of 1902 | 2 6 | 2 6 | 2 0 | 2 6 |

On this the remarks of a German critic may be quoted: "These four tariff classes form 7 per cent.

of our total imports. If, however, we consider these four in relation only to the amount of imports liable to duties—as must be done, since we can consider only those articles which can be used for concessions—they form one-seventh of the import; and if we exclude further all colonial produce liable to duty and some other articles which are of no use in negotiations with the treaty states . . . we perceive how much is lost to us, so far as negotiations are concerned, by the fixing of the minimum tariff for grain.”¹ There were increases on other agricultural produce (maize, dead meat, live cattle, sheep and pigs), but no minima were fixed for these.

As regards the duties on manufactured goods, the principles of the new tariff were (1) “the maintenance of the existing exemption of raw materials so far as these are not produced at all in Germany, or are only produced in insufficient quantity or of inferior quality”; (2) the imposition on semi-manufactured goods intended to be worked up for export of only such rates of duty as would not interfere with the export trade; (3) the increase of the duties on manufactured goods.² Thus raw materials, or materials only in the early stages of manufacture, were to be admitted free or at low rates; for example, raw silk and once-twisted silk were to be exempt from duty, the duty on silk yarn was reduced by nearly two-thirds, the duties on woollen and cotton yarn and cotton thread either remained at the old

¹ Schacht, in Schmoller's *Jahrbuch*, 1902, part ii. p. 342.

² Schacht, p. 309.

level or were reduced. The duties on goods in a more advanced stage of preparation and on finished goods were increased; thus the rate on twice-twisted silk was increased 43 per cent., on silk tissues imported in the piece the increase was 50 per cent. and on silk tissues finished off the duty was doubled. On woollen and half-woollen goods there were increases of from 15 to 30 per cent., on cotton manufactures from 57 to 80 per cent., on leather goods 50 to 100 per cent.¹ The rates on all kinds of iron were advanced considerably, as also on tools and all manner of machinery, with an elaborate reclassification. Of the general tariff as a whole Dr. Schacht has pointed out that its main tendencies were towards the increase of taxation on agricultural produce generally, and also towards the raising of the cost of half-finished goods. There was also a higher taxation of many manufactured goods, on the assumption that the greater the amount of labour expended on a particular commodity, the higher should it be taxed. These principles, he added, were due to a complete misunderstanding of the productive power of Germany; the tariff proposals would promote the production of grain and of half-finished goods, but would harm small farming and manufactures. Yet these latter are the most important factor in the economic life of Germany to-day. The main economic problem is the question of population, and work can be provided for the rapidly increasing numbers not by

¹ *Germany—New General Customs Tariff* (Board of Trade, 1903).

the "extensive" industries of grain-growing and the manufacture of half-finished goods, but by the "intensive" industries of small farming and the manufacture of finished goods. It is essential, then, that nothing should be done to hamper German industry in any way; "we dare not adopt a policy which makes competition more difficult for us by increasing the cost of raw and semi-manufactured materials, and reduces our labourers' strength by raising the price of the necessaries of life. But that is the policy of the tariff, and thereby it not only misunderstands the real foundations of German economic life, but lays a direct burden upon the lower classes."¹ And Professor Schmoller, whilst not agreeing in all points with his contributor, concurred with Dr. Schacht in the opinion that the officials entrusted with the preparation of the tariff were much too protectionist, and far too much inclined to consider every new duty as a sign of progress; and he agreed also that those interests which were well organised and best represented had exercised an unduly great influence upon the shaping of the tariff.² He still held, however, that a moderate protection for agriculture, and even a slight increase of some of the agricultural duties, was desirable, and hoped that the tariff, in spite of defects, might, in the hands of a skilful diplomacy, offer adequate opportunities for negotiations with foreign Powers.

The opposition to the tariff proposals, which, as

¹ Schacht, p. 351.

² Footnote to Schacht, p. 353.

already indicated, was concentrated mainly upon the minimum rates of duty upon grain, came in part from the industrial and mercantile interests, but in part also from the smaller agriculturists, who are interested chiefly—though not entirely—in cattle-rearing, dairy-farming, and the production of crops other than grain; and was based upon anticipations as to the probable course of the treaty negotiations. Of the countries with which treaties were to be attempted, several of the more important—Russia, Roumania, Austria-Hungary, Switzerland—would be interested primarily in the reduction of the duties upon agricultural products; and Russia and Roumania would find that their principal article of export—grain—was to be subjected inevitably to higher rates of duty than before. Hence the smaller agriculturists (*Nebenagrarien*) feared that reductions of duty in those countries, such as were desired in the interest of the German export trade in manufactured goods, would be obtained only at the price of the reduction of the German duties on those agricultural products in which they were mainly interested, since the great landowners (the *Hauptagrarien*) were secured by the minimum rates. The manufacturers and exporters, on their side, feared the increased cost of production which they anticipated might arise from an advance in the cost of foodstuffs; believed that the higher minimum duties on grain would hinder the attempt of the German Government to secure reductions of foreign duties on German manufactured goods, and would

in particular restrict the trade with Russia and Roumania ; and contemplated with some alarm the prospect that the Government might be unable to conclude the treaties by means of the agricultural duties alone, and so, to escape tariff wars, would be forced to lower some at least of the duties on manufactured goods also. Moreover, foreign nations, particularly Austria, Russia, and Switzerland, were preparing for the negotiations by devising new tariffs with increased rates of duty. The task which the German Government had to face was consequently full of difficulty both at home and abroad.

CHAPTER VIII

RECENT ECONOMIC DISCUSSION IN GERMANY

IN the long controversy which raged during the preparation of the tariff and the passage of the law through the Reichstag, it was natural that the economists should play a very conspicuous part, and they may be divided into three main groups. The thorough-going Protectionists are so mainly in the interest of agriculture ; they approach the subject from different standpoints, but they are represented chiefly by Professor Adolph Wagner. Then there is what may be called the Middle School, led by Professor Schmoller ; and finally there is the small Free Trade group, whose most conspicuous member is Professor Brentano of Munich.

The agrarian group are all in favour of increased duties on agricultural produce in order to help the landowners and farmers, whose complaints, as we have seen, have been similar to those with which we are familiar in Great Britain. But it is important to observe that scarcely any amongst them

care to base their arguments solely on the economic distress of the agrarian interests. They all advance other considerations, and their general position is summed up in a sentence of their chief economic representative, Professor Wagner: "An adequate protection for agriculture, higher than the present, would be in the general interest of the whole community, even if by its means the industrial development of the state and possibly also the growth of population should be, not entirely stopped, but certainly slackened, in the general interests of the workers and of the economic organisation of Germany. The maintenance of a capable German agriculture means the maintenance of the German people now and for the future."¹ The argument on which this conclusion is based is elaborated in Professor Wagner's book entitled *Agrar- und Industriestaat*, and an attempt must be made here to indicate its chief propositions. There is a group of extreme agricultural Protectionists, but apparently they find it convenient to accept Wagner's arguments, at least for the present. Professor Wagner views with the greatest anxiety what he regards as the excessive industrialisation of Germany, and his views on this matter are shared by many others, such as Professor Oldenburg and Professor Pohle (Frankfurt).² The maintenance of the industrial state presupposes three conditions: (1) that other

¹ Wagner, *Agrar- und Industriestaat*, 2nd ed., pp. 1, 2.

² See the Report of Professor Pohle, and the speech of Professor Oldenburg in the *Verhandlungen des Vereins für Sozialpolitik*, vol. xcviii., pp. 183 *seq.* and 230 *seq.*

countries are willing and able to supply agricultural products, both as food and raw materials, cheaply ; (2) that these supplies can be safely conveyed to the industrial state ; and (3) that the manufactured goods of that state can be assured of an adequate market in the countries which supply the food and raw material.¹ And in regard to all three of these necessary conditions there are considerable dangers now threatening. In the first place, several countries, hitherto content to remain in the agricultural stage of development, are turning their attention to industry ; thus not merely is the United States (on which Great Britain, for example, had so long depended for the greater part of its food supply) becoming preponderatingly industrial, but Russia, Canada, Australia, Italy, and Roumania are all striving to make themselves into industrial communities. And this means not only that they will sooner or later consume most of their own supplies of raw material (it is, for instance, inevitable that the United States should itself ultimately make use of the greater part of its production of raw cotton), but that further, as these states become more industrial their population will greatly increase, and they will make greater demands on their own food supplies. They will thus tend to use for their own purposes most of their production of food and raw material ; they will have less to export, and the older industrial states, which have based their organisation entirely

¹ Wagner, *loc. cit.*, pp. 143 *seq.*

on the assumption that these supplies are permanent, will find themselves hopelessly crippled. Secondly, even if the supply continue, it will always be liable to be cut in time of war. To guard against this as much as possible, the industrial nations find themselves bound to incur ever-increasing expenditures on naval armaments, and a growing burden of taxation.¹ Thus between 1898-9 and 1903-4, the expenditure on the German navy advanced from six million pounds to ten and a half million pounds, and the British expenditure from twenty-four millions to thirty-five millions. And thirdly, even though the supplies of food and raw material continue quite unchecked, the growth of industrial competition on the one hand, and the attempt of various nations to supply their own industrial wants on the other hand, must make it ever more difficult for a manufacturing nation to dispose of its manufactured goods abroad, except by constantly cutting down its prices. These general propositions Professor Wagner supported by an elaborate examination of the sources of the German supply of food and raw material, illustrating its growing dependence on foreign countries; and by a most detailed investigation of the movement during the previous forty years of the British export industry, which, he held, was tending to become almost stationary, or at any

¹ Cf. the strong advocacy of a powerful German navy by a group of economists in *Handels- und Machtpolitik* (ed. Schmoller, Sering and Wagner).

rate to expand only at the cost of very great efforts.¹ He regards the whole foundation of the industrial state in the form which it has taken in Great Britain, and which it seems likely to assume in Germany, as altogether unsound. So also Professor Pohle writes: "The rule of the system of industry for export cannot long endure. That system, as Roscher already recognised, contained an element truly of temporary brilliancy, but of permanent outward and inward peril. It is an idle dream to believe that the economic future of Germany can be permanently based on the production of industrial commodities for foreign nations."²

The remedy is to make Germany as independent as possible of foreign nations. Not that foreign trade is to be cut off, but attention is to be paid more to the balance between the manufacturing and agricultural interests of Germany.³ Production for the home market must be the primary consideration; the condition of agriculture must be improved before the decline has gone so far as to be irremediable, the agricultural population recruited, and the rush to the towns checked. This may mean a slackening in the rate of the increase of the population, but that would not be unwelcome. The best way to attain these ends is to give agriculture the stimulus of greater protection. "It is not to be denied that, like all the great

¹ It has not been thought desirable to modify the account given in this chapter of the economic discussion in Germany, but in reading it the date of the discussion (1901-3) must be borne constantly in mind.

² Pohle, p. 10.

³ Wagner, *loc. cit.*, pp. 42 and 43.

things which a nation needs—armaments, civil administration, justice, a system of education, arrangements for the care of the economic interests of the community, etc.—so also the maintenance of the permanent economic and numerical strength of the nation in an adequate and sturdy agrarian population requires sacrifices. But we believe these sacrifices, in this case as in the others we have named, are necessary for that higher object which we have in view.”¹ And Professor Wagner, whilst recognising that the increased duties which he advocates on the importation of agricultural produce might, and very possibly would, mean an increase in the cost of living to the lower classes of the community, yet thinks that compensation could be given for this by employing the proceeds of the new duties in further State grants to the various pension funds.² Other economists, sharing the same general opinions, take the same line in regard to the union of tariff legislation and social reform ; “it appears to be beyond dispute that increased duties on grain would result in higher prices for bread, and therefore the working-class population, amongst whom the expenditure on foodstuffs may amount to 75 per cent. of their income (whilst in the case of the most prosperous class of the com-

¹ Wagner, *loc. cit.*, p. 36.

² It may be noted that under Section 15 of the Tariff Act the yield of duties on certain commodities (including wheat and rye) in excess of the average yield of the duties on the same commodities in the years 1898–1903 is to be applied to the establishment of a pension fund for widows and orphans, or, failing the establishment of such a fund, to the assistance of the existing invalidity funds.

munity the amount may fall to 20 per cent.), must in every case, as Sering claims, receive an equivalent compensation by the extension of social legislation and the reform of the imperial taxes with more attention to social needs (*im sozialen Sinne*)."¹

We may take the criticism of these last points first. As Professor Lotz has pointed out,² Wagner has failed to demonstrate that higher protective duties are the sole means of improving agriculture and checking the decline of the agricultural population. The fact that in spite of their existing protection the German landowners were in a bad way, was partly at least to be ascribed to their own defects, to their lack of enterprise, their want of money, and consequent disinclination and inability to make improvements. The value of agriculture to the national life is, no doubt, considerable; but it would be extremely hard to demonstrate that a reduction in the number of industrial workers and an increase in the number of the peasantry and rural labourers would tend to raise the general level of civilisation in the community. So Conrad writes: "There can be no doubt that an increase of the well-being at home, and the remunerative employment of the growing population with which we have to deal, can only be expected from industry and commerce. And, consequently, it is beyond dispute that our tariff

¹ Von Halle, *Volks- und Seewirtschaft*, p. 11.

² *Verhandlungen des Vereins für Sozialpolitik*, vol. xcviii., p. 121 seq.

policy must have in view chiefly their interests."¹ And, as Lotz has again pointed out, while it is desirable to lessen the pressure upon the towns and to remove large masses of the people from conditions which do not make for physical efficiency, there are ways of doing this without taking them back to agriculture. It is certain that the development of means of transport and transit will, before very long, enable Great Britain and Germany to carry out, if they choose to do so, great schemes of industrial redistribution which will spread the workers over larger districts, and put an end to much of that density of population in limited areas, which is at present one of the most painful characteristics of our industrial societies.² As to the growth of population, it is argued by Wagner's opponents that for Germany, situated as she is, and compelled to be a great military power, it is essential to have as large a population as possible, and that such a population can be maintained only by persisting in the policy which she has so successfully followed, the policy of industrialism; and Wagner's reply, that the strength of a population does not depend so much on its numbers as on its efficiency, hardly meets the case. In regard to the corn duties, Wagner did not carry even all the protectionist economists with him; Schmoller was not particularly favourable to any increase (unless

¹ Conrad, *Jahrbücher*, February, 1902, p. 189.

² On this point cf. Wells, *Anticipations*, chap. i., and Mr. W. L. Madgen's pamphlet on *Industrial Redistribution*.

it does not unduly raise the cost of living to the workers), whilst Conrad was decidedly hostile. The latter was in favour only of the raising of the duties on cattle and cattle products; apparently he thinks that the grain duties have even harmed the landowners, by rendering them less awake to the need of improvement in their methods.¹ Moreover, there is not wanting evidence that the agrarian protective duties have affected the cost of living in Germany disadvantageously. The following table shows the average prices of wheat in England and Prussia for quinquennial periods since 1871:²

| Period. | Average Price of Wheat per Imperial Quarter. | | Prussian Price less or more than English. |
|------------------|--|----------|---|
| | England. | Prussia. | |
| | s. d. | s. d. | s. d. |
| 1871-5 | 54 8 | 50 4 | -4 4 |
| 1876-80 | 47 6 | 45 3 | -2 3 |
| 1881-5 | 40 1 | 40 7 | +0 6 |
| 1886-90 | 31 5 | 37 3 | +5 10 |
| 1891-5 | 27 11 | 35 11 | +8 0 |
| 1896-1900 | 28 7 | 34 8 | +6 1 |
| 1901-5 | 27 11 | 35 2 | +7 3 |

It will be seen that since the establishment of the tariff policy inaugurated by Bismarck, the Prussian

¹ Conrad, "Die Stellung der Landwirtschaftlichen Zölle" (*Verein für Sozialpolitik*, vol. xc.). Cf. Von Halle, *Volks- und Seewirtschaft*, pp. 10-13: "If they regard a higher duty on grain as a panacea . . . the result for the agricultural classes of East Germany will be as fatal as the clinging to an out-of-date economic system was, fifty years earlier, to the planters of the southern states of the American Union; for the whole state it would, in view of the geographical position of Germany and international relations, be even more fatal."

² *British and Foreign Trade and Industry* (1909), pp. 194-5. The English prices are the "Gazette Averages"; the Prussian prices are mean market prices. Cf. Conrad, *loc. cit.*, p. 125.

prices have become much higher than the English. And on the question of food prices in general it was remarked in 1903 that "there is in Germany no longer anything said about the great cheapness of food" (as compared with other countries). "Whilst Germany had up to the seventies cheaper food than France and England, to-day in the south-west of Germany it is not only dearer than in Free Trade England, but sometimes even dearer than in France, though that country has a higher tariff on wheat than Germany, and much dearer than in America."¹ The sharp rise in prices (very conspicuous in the case of meat) which occurred in 1905 and 1906, still further emphasised the change.

The arguments as to the bases of the industrial state are more serious, but on the whole not more convincing. After all, it is possible to take too long a view, and to carry speculation too far. It may be perfectly true that a time will come when the whole food supply of the world will be consumed by the countries that produce it, that is to say, that unless some of the now chiefly industrial states return in some degree to agriculture, the supply of foodstuffs will not keep pace with the world's demand. But this prospect will scarcely seem very near to those who have been told so

¹ Weile, *Der Einfluss der Deutschen Schutzzollpolitik auf die Entwicklung der Industrie und Handwerkschaft*, p. 22. For a detailed comparison of the relative cost of living for working-class families in the two countries, so far as it can be statistically measured, and subject to definite limitations, see the Board of Trade Report on the *Cost of Living in German Towns* (1908).

much of the unlimited resources of Canada, who remember the almost untouched possibilities of Argentina and Uruguay and other South American states, of Egypt and Northern Africa, of Russia and Siberia (under an intelligent economic policy), of Asia Minor and Mesopotamia.¹ Similarly, in regard to the exhaustion of raw material, it is, of course, possible that ultimately the United States will consume all its own cotton (though it is worth noting that Cobden had the same fear seventy years ago). But there are great possibilities of the production of cotton in other lands, as yet almost undeveloped, as, for example, in British West Africa. It must be a very long time before the alarming condition of things which Professor Wagner foresees is realised, and, in any case, that condition can only come about very gradually, and as it comes there will be a gradual transference back to agriculture of the labour for which industry cannot provide employment.² As to the question of markets for manufactured products, there is no evidence that they are declining. As a matter of fact, they are increasing even in protected countries. If we take Germany herself, the growth of her export trade means a corresponding growth in her import trade, and this increase is not merely of imports of

¹ Cf. Mr. R. H. Rew's remarks on the relative growth of the world's population and wheat supply in *Agricultural Statistics for 1908*, vol. xlvii., part iv., pp. 360-1.

² Cf., for the above criticism of Wagner and for further discussion of the problem, Dietzel, "The German Tariff Controversy," in the *Q. J. Economics*, May, 1903, especially pp. 405 *seq.*; and Brentano, *Die Schrecken des überwiegenden Industriestaats*.

food and raw materials, but it is in manufactured goods also. As civilisation advances with the development of the industrial state, the standard of life rises, the wants of the community increase, commodities which were once luxuries come to be regarded as necessities, and, in spite of tariffs, they are imported from abroad. Wagner recognises that this will always be the case, but seems hardly to realise the extent of the process. The following table sets out the recent movement of the import of manufactured goods into certain European countries :¹

| Country. | Average Annual Value of Imports of Manufactured Goods for Home Consumption. | | |
|------------------------|---|------------|------------|
| | 1892-6. | 1897-1901. | 1901-6. |
| | Million £. | Million £. | Million £. |
| Russia | 12.3 | 19.7 | 19.4 |
| German Empire | 43.8 | 53.0 | 64.2 |
| Holland | 24.0 | 30.2 | 38.8 |
| France | 28.4 | 29.8 | 37.5 |
| Switzerland | 10.9 | 13.9 | 16.7 |
| Italy | 10.2 | 12.6 | 18.2 |
| Austria-Hungary | 16.6 | 19.0 | 22.9 |

“ Why should the result in the future be any different? Why should the decline of our export industries, taken as a whole, set in, in case Russia, Canada, Central and South America, Eastern Asia, Cape Colony, and Australia should develop manufactures at some future time? If to-day a more extensive division of labour is taking place within the industrial realm, and a comprehensive interchange of products between countries like England,

¹ *Statistical Abstract for the Principal and Other Foreign Countries*, 1908, pp. 81-9.

France, and Germany (that is lands, all of which lie in the temperate zone, all on about the same plane of social and economic development), is it not probable that such a division of labour and such intercourse will not only continue, but extend even further, when it includes not only the industrial states of to-day on the one side, but Russia and others on the other side? For between the former and the latter there is a much greater diversity of natural as well as social conditions than exists between England, France, and Germany.”¹ And the number of countries which can ever become largely industrial is comparatively limited (few have resources of the right kind), and in the others, notably the tropical and semi-tropical countries, the market for manufactured goods will always be very large, and mostly free from home competition. It is true that competition in those markets will become more and more keen, but this simply means that no one country is likely to have in the future such a complete industrial predominance as Great Britain used to enjoy.

There is one other point in Professor Wagner’s argument which should be noted. The English theory of international trade as expounded by Torrens, Ricardo and Mill has never had much influence amongst continental economists, and Wagner attacks it on the ground that the greatest relative advantage, which it presupposes as the reason why a country should devote itself to the

¹ Dietzel, *loc. cit.*, p. 403.

production of a particular commodity or group of commodities, may work extremely badly for the community as a whole. It may mean that a country will find itself limited to the production of one commodity only, and hence will lose all the advantages which come from the possession of diverse industries and a variety of technical skill ; or it may mean that a country will be compelled to devote itself more and more to the production of commodities in which its advantage over its competitors is of the worst kind, namely, cheapness arising not from efficiency of method or abundance of materials, but from ill-paid and sweated labour.¹ As to the first of these alternatives, it can only be said that there is no evidence in any industrial country of any such process taking place to any appreciable extent ; but on the contrary, new industries requiring great technical skill are rising in all industrial communities. The second point will be familiar to English readers in Mr. and Mrs. Webb's work on *Industrial Democracy*. They will

¹ Wagner, *loc. cit.*, pp. 32 *seq.* Cf. Pohle, p. 218 : "In regard to a great part of this industry (the manufacture of clothing) we are entitled to say that Germany's ruling position in the world-market can be maintained only at the expense of the workers' standard of living. Of the conditions of work which prevail in that industry we may fairly use the English expression that wages are only enough to keep 'body and soul together,' and that the hours of labour are as many as the hours of the day. In a great part of these branches of industry home employment is still predominant. The miserable condition of the home workers of the Erzgebirge, the Fichtelgebirge, the Thuringian Forest, and other German hill districts, is well known ; and all these work largely, if not chiefly, for export. There are still worse conditions ruling among the home industries of the towns, and particularly in the different branches of the clothing trade."

remember that in Appendix II. of that work this argument against Free Trade—that it may, according to that pure theory of international trade which has been adopted by most British economists, lead to the dependence of this country on sweated and ill-paid industries—is elaborately stated; but they will remember also the contention that no system of protection would remedy this, but that safeguards against it must be sought elsewhere.¹ The admitted truth of the facts alleged only implies the necessity of State action to put an end to the conditions which render “parasitic industries” possible; it is difficult to see how any policy, which aims simply at restraining the growth of industry and at stimulating the development of agriculture, would be likely to remedy the evil.

¹ “But though the existence of parasitic trades knocks the bottom out of the argument for *laissez faire*, it adds no weight to the case for a protective tariff. . . . The advocate of a protective tariff aims at excluding imports; the opponent of ‘sweating,’ on the other hand, sees with regret the rapid growth of particular exports, which imply the extension within the country of its most highly subsidised or most parasitic industries. Hence, whatever ingenious arguments may be found in favour of a protective tariff, such a remedy fails altogether to cope with this particular evil. If the expansion of the industries which England pursues to the greatest economic advantage—say, for instance, coal-mining and shipbuilding, textile manufacture and machine-making—is being checked, this is not because coal and ships, textiles and machinery, are being imported into England from abroad, but because other less advantageous industries within England itself, by reason of being favoured with some kind of bounty, have secured the use of some of the nation’s brains and capital, and some of its export trade. . . . In short, the absolute exclusion by each country of the imports competing with its own products would not, any more than Free Trade itself, prevent the expansion within the country of those industries which afforded to its wage-earners the worst conditions of employment” (Webb, *Industrial Democracy*, ed. 1897, ii. pp. 865–6).

We pass now to the Middle School, which, in the main, follows the lead of Professor Schmoller. With the general attitude of that group towards Free Trade and Protection we are already familiar :¹ to them "the tariff problem admits of only relative solution"—all depends on the particular conditions of time and place. They are not hostile to Free Trade, but they believe it to be only one of various policies to be applied according to circumstances. Neither are they Protectionists ; in fact, their advocacy of the use of tariffs for the purposes of promoting international exchange is incompatible with protectionist ideals. Professor Schmoller holds that for the purposes of negotiation agrarian and industrial duties are alike necessary, and believing that agriculture is suffering, he would encourage cattle-rearing by duties on foreign cattle and meat, but would support duties on bread-stuffs only when they do not raise the price of bread unduly—whatever that qualification may mean. Agriculture is, in fact, to be maintained and developed by duties so arranged as to raise prices without increasing greatly the cost of living, and without removing the pressure which low prices put upon the farmers to reduce their cost of production by improvements in method.²

¹ See above Chapter V.

² "Man wird für Deutschland in der Agrarzöllfrage sagen müssen : wir wollen möglichst unsere Landwirtschaft erhalten, die Masse der selbstwirtschaftenden Grundeigentümer und Pächter vor dem Bankerott schützen ; wir müssen als Kompromiss die Zollhöhe so bemessen, das ohne starke Vertenerung der Lebensmittel und ohne Erhöhung der

It is not apparent that Professor Schmoller regards this ideal as being in any way attainable ; and in fact to him the tariff is important chiefly as a weapon. "I believe that we may draw this lesson from history, that all protective movements are closely connected with national sentiment, strivings after international authority, efforts towards the balance of power, and therefore will continue to exist so long as amongst the fully developed states there are others striving after economic development, and so long as the peoples for economic purposes have need of every weapon which stands ready for their use."¹ He points out that the increases of the tariff in the eighties were used by Bismarck in this way, and that the Bismarckian idea has now been taken up again. But the negotiation tariff is not to be a high protective tariff; it is supported by him only in order to give Germany a better position in commercial negotiations. Schmoller holds that the "neo-mercantilism" of the present day has arisen out of the nationalist movements, and is based not on List's theory of "educational tariffs" (*i.e.* the infant industries doctrine), but on the desire to possess an "inter-

Grundrente doch die Landwirte bestehen können; und zugleich durch den bleibenden Preisdruck ein gewisser Impuls erhalten bleibe, durch technische Fortschritte besser und mehr zu produzieren. Wir werden am leichtesten eine solche Zollpolitik rechtfertigen können, wenn die Regierung durch starke bauerliche Kolonisation zeigt, dass die Zollerhöhung nicht wesentlich im Dienste der reichen Grossgrundbesitzer geschieht" (Schmoller, *Grundriss*, ii. p. 646).

¹ *Verhandlungen des Vereins für Sozialpolitik*, 1902, p. 265. This and the following quotations are from Schmoller's speech, pp. 264-71.

national weapon" (Machtmittel). "The new period of Protection, this neo-mercantilism, has come, not because the theorists and statesmen were incapable of understanding the lofty arguments of Free Trade, not because everywhere some monopolists and large manufacturers control the Government, but out of natural nationalist tendencies, particularly in those countries with the most liberal and democratic constitutions. It is based not alone or even chiefly on the doctrine of 'educational tariffs,' but arises out of an instinctive, rather than reasoned, motive that the tariffs are an international weapon which, skilfully employed, can be of the utmost use." A strong tariff is particularly needed to enable Germany to fight the extreme protectionist policy of Russia and the United States. These views are shared by a very considerable number of the younger German economists, the most distinguished, perhaps, being Dr. Schumacher, head of the great Commercial High School at Cologne.¹

But this policy of tariffs to be employed as a means of fighting other nations which pursue a policy of exclusion, has certain serious dangers. We have seen that the application of the policy against France under the Monarchy of July, against Spain and other powers, has not always produced satisfactory results. The increase of the agricultural duties by Bismarck in the eighties did

¹ See his long report in the *Verhandlungen des Vereins für Sozialpolitik*, 1902.

nothing to promote exchange with Russia for a number of years—in fact, by the admission of the German Government itself, German trade with Russia declined steadily between 1880 and 1890; the conflict with Russia in the nineties was short and sharp, and if, on the whole, in that case the policy was justified, the risks run were very great. Moreover, these tariffs for negotiation are like armaments; when one country increases them, others do the same. As soon as the proposals for the new German tariff were published, Austria and Switzerland proceeded to revise and increase their tariffs, in order to be ready to fight Germany. And further, when protective duties are once granted, whatever the original purpose may have been, a vested interest in their maintenance is created, and the producers so protected are sure to oppose any proposal to reduce the duties in the effort to bribe foreign powers. So, as we have seen, the agrarian interest in Germany has fiercely opposed any treaty reductions of the grain duties. Schmoller himself recognises that “admittedly this neo-mercantilism frequently overlooks the fact that these weapons may as often be used unskilfully and mistakenly as rightly. The agitation of the interested classes commonly fails to see that excessive protection as a whole does more harm than good. So Russia, the United States, and France have fallen into a high protective system, and sometimes into a commercial policy which, though it aims at international power, is of a worse kind,

and hinders the economic development of these countries instead of promoting it." And elsewhere (as has been pointed out) Schmoller has observed in regard to the latest German 'Tariff' that the officials who planned it were much too favourable to Protection pure and simple, and that those interested groups, which were well organised and skilfully led, exercised far too great an influence upon it.¹

Another moderate view is that of Professor Conrad, of Halle. Whilst holding that industrial protection has gone far enough, he would protect agriculture so far as that policy does not involve the depression of the standard of living for the working classes. He would retain the existing duties on foodstuffs for the present, because of the critical condition of German agriculture, but the only duties he would increase are such as would promote the development of special branches, such as cattle-rearing and dairy-farming. Professor Sering, of Berlin, favours the increase of the agricultural duties only in the belief that they will help agriculture over a transition period in which radical changes must be made, if the condition of the eastern provinces is not to be a serious social menace to Germany. He supports the heightened grain duties only if they are to be regarded as part of a social programme which shall include the reduction of duties on such commodities as coffee, petroleum, etc., the gradual prohibition of the in-

¹ Schmoller's *Jahrbuch*, 1902, part ii. p. 353.

vasion of the eastern provinces by the cheaper Slav labour, and the transformation (by a national system of land purchase) of the large estates of the eastern provinces of Prussia into peasant holdings. Unless these steps were to be taken to maintain the peasantry, in whom he believes the strength of Germany to lie, he would be opposed to the new duties.¹

It will have been noticed that none of the economists quoted are inclined to defend increased duties on manufactured goods; the Free Trade school naturally demands their abolition, not at once, but gradually. It recognises fully that educational tariffs may be of use to a country in some periods of its economic development—it is prepared to defend their application in the past; but it is opposed to “maintenance tariffs” (*Erhaltungszölle*).² Such tariffs not only hinder the territorial division of labour, which has the same effect on production as labour-saving machinery; they not only prevent or delay a reduction in the national cost of production and the attainment of “a greater total product from a given expenditure of labour, and a higher national dividend than before,”³ but they also strengthen the industrial combinations, and enable them to

¹ *Verhandlungen des Vereins für Sozialpolitik*, 1902, pp. 244–7. None of the conditions have so far been fulfilled, and the present position of German finances does not render their fulfilment in the near future at all probable.

² Brentano, *Das Freihandelsargument*, p. 15.

³ Dietzel.

maintain artificial prices in the home market by eliminating competition from outside. This party accepts entirely the industrialisation of Germany, and believes that in the present stage of that country's development "the real protection of national labour is Free Trade."¹ The material progress of Germany depends on the extension of her manufactures and the completion of the division of labour between the industrial communities of the world. The agricultural duties are to be condemned, since they not only increase the cost of food by limiting the supply from countries where it is produced more cheaply than in Germany, but also by limiting imports reduce the market for German exports, which are chiefly manufactured goods, and so in two ways hamper the growth of industry.² They also point to the experience of Germany as an illustration of the fact that duties once imposed are much more likely to increase than to decrease. Some of their criticisms of Wagner and his allies have already been indicated; and it is unnecessary to state their more general argument, since it follows the lines of ordinary English economic thought.

On the whole, then, so far as German economists in the past have been advocates of Protection, their arguments have been based largely on the political need of securing the development of German economic strength as a basis for political power.

¹ Brentano.

² *Ibid.*, pp. 16, 17.

To-day that condition has been realised, and the argument for Protection is shifted on to another ground; it is alleged that the development has been too one-sided, and that the comparative neglect of agriculture has become a source of weakness to the Empire. Yet for more than twenty years agriculture has received a large measure of protection, and one is forced to believe that if, in spite of that, it has not held its ground, the reasons are to be sought in causes over which tariffs have little control. As to the other argument for Protection—the need for negotiation tariffs—no economist has shown that the result could not be obtained in another way; if they are to be used at all, it may be argued a system of occasional duties—such as that established by the recent Sugar Convention and employed in the United States under the McKinley Tariff¹—would be preferable to the imposition of a general tariff on manufactured goods, which might, or might not, be reduced. Tariffs for negotiation are at best, as even their defenders in Germany readily admit, a dangerous weapon; the policy can only be successful where the country making use of them is not dependent on supplies drawn from, or a large market in, the country against which they are employed, whilst the latter is so dependent upon the former. And, finally, it must be borne in mind that tariffs are, after all, only the crudest form of Protection,

¹ See pp. 292–3.

and are not necessarily the only or most efficient means of promoting the economic well-being of a nation; and the safest lesson to draw from the experience of Germany is the simple fact that changes in tariff policy have been only one, and commonly not the most important, amongst the many causes of her economic progress.

CHAPTER IX

THE COMMERCIAL TREATIES AND THE NEW CONVENTIONAL TARIFF—CONCLUSION

THE commercial treaties in force with Austria-Hungary, Belgium, Italy, Roumania, Servia and Switzerland, were terminable at one year's notice, on or after the 31st December, 1903, and early in that year, immediately the adoption of the new general tariff law provided a basis, the German Government opened negotiations for the conclusion of new treaties. As already indicated, the task was full of difficulties. On the one side, the limitation of the extent to which tariff concessions in respect of agricultural produce could be made, and the desire to maintain the "sanitary" restrictions on the importation of live animals, particularly over the eastern borders, tied the hands of the German Government in its dealings with those foreign states whose export interests are mainly agricultural; whilst another guiding principle was the maintenance or increase of the existing protection given to certain special branches of industry—as, for example,

machinery.¹ On the other side, whilst Belgium and Italy, countries which had little or no interest in the export of agricultural produce to Germany, used their existing tariffs as a basis for negotiation, Austria-Hungary, Roumania, Russia and Switzerland, all prepared for the discussion by revising their tariffs and increasing substantially the rates of duty on manufactured goods, particularly of those classes in which German trade was interested.² It should be added that on both sides material for concession was found not only in the tariff schedules, but also in the customs administrative regulations.³

The negotiations with Belgium were brought to a close in June, 1904; in the other cases they were more protracted, but the series was completed with the conclusion of the treaty with Austria-Hungary in January of the following year. The Reichstag gave its approval, with some opposition in the case of the Austro-Hungarian and Russian treaties, in February, and, due notice having been given, the new general tariff, and the "conventional" tariff, as determined by the treaties, came into force on the 1st March, 1906. The terms of the treaties were by no means generally approved in Germany, for the commercial and industrial classes were in considerable doubt as to the effect of the new arrangements upon their particular interests; but there

¹ Roghé, *Weltwirtschafts-Politik in Die Weltwirtschaft* (ed. von Halle), 1906, i. p. 16.

² The Servian Tariff had also been revised, and on the whole increased, though not with the same direct purpose.

³ Cf. Roghé, *loc. cit.*, pp. 13-15.

was a widespread desire to terminate the long-continued uncertainty, and to return to a definite basis of commercial relations. The new treaties were to continue in force until the end of the year 1917, and after that were to be subject to one year's notice on either side; in the case of the Dual Monarchy, having regard to the nature of the commercial relations between Austria and Hungary, provision was made for a possible termination at the end of 1915.

The treaties provided for reductions in the rates of duty imposed by the general tariff on a large number of classes of commodities; and in many other instances the "general" rates were "conventionalised"—that is, the German Government bound itself not to increase them, or impose duties where none existed, so long as the treaties should remain in force. As regards agricultural produce, Austria-Hungary, Roumania and Servia obtained the reduction or conventionalisation of duties in respect of grain, oil-fruits and seeds, vegetables, fruit and timber; Russia in respect especially¹ of grain and timber; Switzerland of fruit; and Italy of vegetables, fruit, "southern fruits," olives, olive and castor oil, wine and vermouth. With regard to manufactured goods or raw materials, concessions involving the reduction or conventionalisation of the rates of duty contained in the general tariff were made (for example) in respect of chemi-

¹ Russia also obtained an increase in the number of swine for immediate slaughter, which may be sent weekly from Russia into Upper Silesia.

cals for Austria-Hungary; worsted yarns for Austria-Hungary, Belgium, and Switzerland; silk goods for Switzerland and Italy; woollen tissues, cotton yarns, and manufactures thereof for Switzerland; linen yarns for Austria-Hungary and Belgium; boots and shoes for the same countries and Italy; leather wares for Austria-Hungary, Belgium and Switzerland; gloves for Italy; straw-plait for Switzerland and Italy; furniture for Austria-Hungary; glass and glass-ware, iron and iron alloys, copper and copper alloys for that country and Belgium; some steam-engines and machinery, ventilating machines and pumps for Belgium; knitting machines, electrical appliances, and clocks for Switzerland; toys for Austria-Hungary; and marble, granite, and stonecutters' work for Italy.¹

All the treaties contained guarantees of the continuance of reciprocal "most favoured nation" treatment, both as to general facilities for the conduct of trade and commerce in Germany, and as to rates of duty, so that the reductions made by Germany in favour of any one nation were *ipso facto* extended to all the other contracting states, the result being the creation of a conventional or "minimum" tariff, with rates of duty in many instances lower than those of the general tariff, incapable of increase in any case during the existence of the treaties, and applicable to goods coming from any country entitled to "most favoured nation" treat-

¹ Full details are given in the *New German Tariff as Modified by Treaties* (Board of Trade, 1905).

ment in Germany. With regard to the effect of the "most favoured nation" clause, it should, however, be pointed out that its force may be, and often is, diminished by the fact that though reductions of the rates of duty on particular classes of goods made by one country in favour of another are necessarily extended to any third party entitled to "most favoured nation" treatment, they may be actually of little value to this third country, because it does not produce goods of identically the same character. One of the primary purposes of the elaborately detailed classification contained in the German tariff, and of other continental tariffs framed on the same model, is to provide opportunities for the special treatment of particular states without any dangerous extension of such privileges by reason of the "most favoured nation" clause.

The new conventional tariff, under which the great bulk of Germany's foreign trade is carried on, marked a very distinct advance as compared with the previous tariff in the amount of protection afforded to agriculture, with increases on the principal grains, cattle, sheep, pigs, fresh meat, bacon, animal fats, meal of all kinds, margarine, vermicelli, etc. ; but as regards the effect of the changes of the rates of duties upon manufactured goods, it is by no means easy to arrive at any very definite conclusion, especially as the numerous and minute re-classifications render comparison between the old and new rates of duty almost impossible except for the experts of the particular trades affected. On the

whole, the general level does not seem to have been seriously raised.¹ Thus there were increases in the rate of duty on candles, varnishes, cotton-yarns (the highest counts), linen and jute yarns (the lower counts), boots and shoes, gloves, indiarubber wares, some joiners' wares (window-frames, doors, stairs, mouldings, etc.), upholsterers' furniture, mechanically-prepared pasteboard, wood-pulp, paving-stones and machinery. On the other hand, there were decreases in the rates of duty applicable to timber for industrial purposes, condensed milk, refined petroleum, benzine and gas-oils for motor purposes, caustic soda, liquid extracts of dye-woods, mohair and alpaca yarns, raw silk, certain silk tissues, cotton-yarns (the lower counts), linen and jute yarns (the lower counts), felt hats, some saddlers' wares, straw-plait, lithographic stones, and pig-iron. The duties on tea and cocoa were reduced, but that on roasted coffee was raised; and as regards building materials, there were advances in the duties upon roofing-slates and bricks, but reductions in respect of building timber and fire-proof bricks.

It has already been observed that several of the continental states had revised their tariffs and increased the rates of duty leviable thereunder in preparation for the treaty negotiations; and though

¹ The Board of Trade estimated (*British and Foreign Trade and Industry*, 1903, p. 171) that the General Tariff did not involve any appreciable increase in the burden of duties upon German imports from the United Kingdom.

Germany had ultimately obtained the renewal of the commercial treaties and the recognition of the higher rates upon agricultural produce fixed by the tariff law, she had been compelled, for her part, to acquiesce in substantial increases of the duties levied by her neighbours on some articles of importance to her export trade. Thus in Switzerland the new rates of duty were higher than the old in the case of cotton textiles, silk goods, some classes of woollen goods, brushes, furniture, wines, cigars, and shoes of fine leather, whilst the reductions were noticeable only as regards aniline dyes and hops. Austria-Hungary raised the duties on rye and hops, cotton-lace, some half-silk textiles, rough wooden wares (furniture and parts thereof), machines for metal-working, varnished leather, colour prints and photographic paper; Russia on some cotton textiles, sewing-machines, machines for wood-working, locomotives, fine brass wares, coopers' wares, colour-prints and chromo-lithographs, some perfumery and cosmetics, and fireproof clay; Roumania on a number of classes of cotton and woollen goods, sewing-machines and similar machines, automobiles, the heavier classes of machine tools, glove-leather, colour prints and lithographs; and Servia on certain cotton and woollen textiles, woollen yarns, some wrought-iron goods, fine and varnished leather, and glove-leather. The decreases in the rates of duty obtained were in all these countries of relatively small importance. As in the case of the new treaty with Bulgaria (which came into force in January,

1906), Germany again was not able to obtain any appreciable reduction of the high duties established by the revised Bulgarian tariff; there appeared to be some justification for the complaint of the German manufacturers and merchants that the use of the new general tariff for the purposes of negotiation had not been markedly successful, and that, in fact, whilst the agrarian interests had been safeguarded, the German export industry had been subjected to new and severe handicaps.¹

It will be convenient at this point to indicate briefly the nature of Germany's commercial relations with countries other than those mentioned in the preceding paragraphs. It has already been stated² that, in the absence of any commercial treaty, the United Kingdom continues to enjoy "most favoured nation" treatment by virtue of a German law which has been periodically renewed; the same treatment was extended to all the British Dominions except Canada, which alone has hitherto been penalised for its preferential treatment of British goods.³ The commercial relations between the German Empire and France are still regulated by the article of the Treaty of Frankfurt, which binds France to accord perpetual "most favoured nation" treatment, which is voluntarily reciprocated. In the case of Spain there existed, from 1899 onwards, an agreement giving the two contracting countries reciprocal "most favoured nation" treatment; this

¹ Roghé, *loc. cit.*, pp. 15-17.

² *Vide supra*, p. 101.

³ See note on p. 101, *supra*.

was denounced in 1905 by the German Government, and would have terminated in June, 1906; but the termination was postponed, first for six months, and subsequently for an indefinite period. With Portugal a treaty of a somewhat unusual character was signed in 1908, but ratified only in 1910; under its provisions the rates of duty of the existing Portuguese tariff are conventionalised for the duration of the treaty (eight years), except in the case of certain specified articles, in respect of which Portugal reserves the right to increase the duties within prescribed limits on condition that so soon as such increases are enforced the duties on other specified German goods will be reduced, the reductions so to be made being also set out in the treaty.¹ With Greece a treaty has been in force since 1884, which limits the duties on currants and valonia imported into Germany. In 1906 a treaty was concluded with Sweden, whereby that country obtained the advantages of the conventional tariff, and reductions on a number of commodities (such as wooden window-frames, paving stones, stone-cutters' work, and some dairy machinery). Finally, Holland enjoys "most favoured nation" treatment in Germany under a treaty of 1851, as do Norway and Denmark by virtue of ancient treaties, or rather (since it is doubtful to what extent such treaties can be regarded as binding) by an understanding not to disturb long-established relations.

As regards non-European countries, the most

¹ See *Board of Trade Journal*, June 17 and 24, 1909.

important matter is the attitude of the German Empire towards the United States. Under an agreement of 1900 the latter granted to the former the reductions in the rates of customs duties provided for by Section 3 of the Dingley Tariff Act (the most important, in this instance, being those on wines),¹ and in return for this were admitted to the advantages of the German minimum tariff. This arrangement was terminated when the new German tariff came into force in 1906; but in the following year a fresh agreement was reached, whereby in return for the same concessions on their part the United States obtained most, but not all, of the German minimum rates. The revision, in 1909, of the United States customs tariff, brought in its turn the necessity of terminating the agreement, and after some uncertainty, and for a time the prospect of a tariff war, the two States agreed to extend to each other the advantages of their minimum tariffs. With all the other American States except Brazil, Chili, Peru and San Domingo, Germany has treaties which secure reciprocal "most favoured nation" treatment, without any specific reductions of duty on either side.² Similar arrangements exist since various dates with Liberia, Abyssinia, Turkey, and Persia; whilst in treaties with Egypt, Japan, China, Corea, and Siam, there

¹ *Vide infra*, pp. 294-5.

² Under a treaty of 1908 with Hayti, however, Germany admits certain Haytian products at the minimum tariff rates, and obtained reductions of duty on some of her imports into Hayti.

are included schedules of rates of duty which may not be increased so long as the treaties are in force.

There are some other matters connected with German tariff legislation which should be noticed here. The first is the extent to which the system of *drawbacks* has been adopted. On the exportation of articles in which cocoa is an ingredient, a drawback is allowed equal to the import duty leviable on the amount of cocoa beans used in their manufacture; and similar reimbursements of customs or excise duties are made in respect of exported spirits, products containing spirit, and tobacco and manufactures thereof. A somewhat different arrangement exists in regard to the products of flour and malt mills; the exporters of such commodities receive certificates enabling them to import free of duty grain corresponding to the amount of foreign grain utilised in the preparation of the exported products, and a similar plan has been adopted in regard to the products of oil factories, according to the amount of foreign oil fruits and seeds which have been employed in the preparation thereof. Other drawbacks relate to salt and re-exported timber for building and industrial purposes.¹ A connected matter is the duty-free admission of materials and articles (the list of which may be increased from time to time by decree) required for the construction and outfit of sea-going vessels.

¹ Detailed information is given in *Reports of H.M. Representatives Abroad on Bounties (other than those on Shipping and Navigation)*, 1904.

A second point is the provision made for the "Improvement Trade." "The free import of goods for the purposes of manufacture, of completion or repair, with the object of their re-exportation (the so-called active improvement trade), is permitted if this promises material advantage to the industries concerned, and if it entails no injurious consequences to other home industries; further, it is permitted even when some small disadvantages exist, if these are outweighed by benefits so much greater as to conduce, on the whole, to the furtherance of German economic prosperity. The free importation of goods exported from the country for improvement (the so-called passive improvement trade) shall . . . only be permitted in exceptional cases, and only when the improvement in question cannot at the time be made in Germany, either at all, or only insufficiently, or in an inferior manner; further, when it applies to experiments made for the purpose of attaining new manufacturing methods or new patterns. . . . The separate Federal States have the right of independent decision in individual or temporary cases of improvement traffic. If the question, however, should be the establishment of a permanent improvement traffic not yet permitted within the German customs system, the consent of the Federal Council is necessary before the permit can be granted."¹

Finally, it may be pointed out that in Art. 15 of the Tariff Law of 1903 it was enacted that the

¹ *Consular Report for Berlin for the Year 1906*, p. 63.

per capita yield of the duties on rye and wheat, cattle, sheep, poultry, dead meat, bacon and flour, in excess of the corresponding average annual yield for the six years 1898–1903, is to be set aside to form a fund to facilitate the establishment of a national scheme of provision for widows and orphans. In the event of such a law not being in force at the commencement of 1910, the fund and the annual surpluses are to be handed over for the same purpose to the institutions existing under the Invalidity Insurance Laws.

It does not appear practicable to form at present any useful estimate of the general effect of the tariff of 1906 upon the economic development of Germany. It came into force in March, 1906, almost in the midst of a period characterised by a remarkable expansion of industry and commerce not in Germany alone, but practically in all industrial countries. That expansion continued until the latter part of 1907, when in the ordinary course of things there came a reaction which was accentuated by the far-reaching effects of the financial and commercial crisis in the United States of America. The table given on p. 158 shows the movement of certain of the more important indices of German trade for certain quinquennial periods and the four years 1905 to 1908.¹

The period of industrial expansion up to the end of 1907 was accompanied by a fairly general upward

¹ The figures in the table are taken from *British and Foreign Trade and Industry*, 1909.

| | Annual Average. | | | | 1905. | 1906. | 1907. | 1908. | | |
|---|-----------------|------------|------------|------------|---------|---------|---------------|---------------|------------|------------|
| | 1890-1894. | | 1895-1899. | | | | | | 1900-1904. | |
| | Million £. | Million £. | Million £. | Million £. | | | | | Million £. | Million £. |
| Total imports for home consumption | 198.9 | 232.8 | 287.0 | 350.5 | 394.4 | 430.0 | Million £. | Million £. | | |
| Imports of manufactured and partly manufactured goods | 44.0 | 49.1 | 57.0 | 65.8 | 82.3 | 88.2 | 75.6 | 75.6 | | |
| Total exports of German produce | 152.5 | 181.3 | 235.6 | 281.8 | 312.7 | 336.8 | 314.6 | 314.6 | | |
| Exports of manufactured and partly manufactured goods | 98.6 | 116.9 | 154.2 | 188.0 | 216.4 | 236.4 | 213.1 | 213.1 | | |
| Output of pig-iron | 4.8 | 6.7 | 8.9 | 10.7 | 12.1 | 12.7 | Million Tons. | Million Tons. | | |
| Output of crude steel | 2.8 | 5.1 | 7.3 | 9.9 | 11.0 | 11.9 | 11.6 | 11.6 | | |
| Output of coal | 72.0 | 89.3 | 110.7 | 119.4 | 134.9 | 140.9 | 11.0 | 11.0 | | |
| | | | | | | | 146.2 | 146.2 | | |
| Consumption of raw (sheep and lamb's) wool | 345.1 | 391.7 | 345.3 | 363.1 | 379.8 | 401.1 | Million Lbs. | Million Lbs. | | |
| | | | | | | | 359.7 | 359.7 | | |
| Consumption of raw cotton | 4.8 | 5.9 | 6.8 | 7.8 | 7.8 | 9.0 | Million Cwts. | Million Cwts. | | |
| | | | | | | | 5.5 | 5.5 | | |
| Vessels built and added to Register | 62,279 | 77,509 | 113,463 | 125,915 | 157,227 | 145,545 | Tons. | Tons. | | |
| | | | | | | | 94,349 | 94,349 | | |

movement both in rates of wages and in earnings, which was, however, at least partially counter-balanced by the rapid advance in the prices of almost all important articles of food, notably wheat and rye, bread and meat (especially pork); and it does not appear that the reaction of 1908 was accompanied by any appreciable fall of the prices of these commodities.¹ How far the sharp rise of prices in 1906 and 1907 was due to the influence of the increased customs duties, and how far it was the expression of purely economic forces (agricultural conditions, increased earnings, and consequent enhanced demand), are problems which it does not appear possible to solve in any very definite manner, but there can be no reasonable doubt that in an appreciable measure it was the outcome of the increased protection which German agricultural interests have procured for themselves. And it is, of course, equally impossible to determine the probable duration of the higher level of prices, but on the whole it appears likely that it will continue for a considerable period.

Attention may be drawn in this connection to the statistics of German Customs revenue shown in the table on p. 160.² From that table it appears that three-quarters of the total customs

¹ For evidence of the upward movement of prices, see *British and Foreign Trade and Industry*, 1909, pp. 193, 195, 200, 204; the *Reports of H.M. Consul-General at Berlin for 1906* (pp. 11-13), 1907 (pp. 12-15), and 1908 (pp. 40-41); and the *Report of H.M. Consul-General at Frankfurt for 1908* (pp. 14-33).

² *British and Foreign Trade and Industry*, 1909, pp. 92-3.

revenue of the German Empire is derived from taxes on food, drink, and tobacco, and that only about one-fifth is obtained from duties on manufactured goods. But in the latter case nearly three-fifths of the revenue (£3,739,000 out of an average of £6,581,000 for the period 1905 to 1908) comes from the duty on refined mineral lighting and lubricating oils, so that the duties on "manufactured

| Period. | Average Yield of Customs Duties per Head of Population. | Average Proportion of Total Customs Receipts derived from Duties on— | | |
|----------------------------|---|--|----------------|---------------------|
| | | Food, Drink, and Tobacco. | Raw Materials. | Manufactured Goods. |
| | s. d. | Per Cent. | Per Cent. | Per Cent. |
| 1890-4 | 7 6 | 74·1 | 4·0 | 21·9 |
| 1895-9 | 8 8 | 72·0 | 5·6 | 22·4 |
| 1900-4 | 9 2 | 72·4 | 5·7 | 21·9 |
| 1905-8 (4 years) | 10 9 | 75·0 | 5·2 | 19·8 |

goods," as that term is commonly understood, supplied on the average for 1905 to 1908 less than £3,000,000 a year towards the imperial revenue. On the other hand, out of an average total yield of £24,932,000 from duties on food, drink, and tobacco, cereals produced nearly one-half (£11,086,000), coffee £3,669,000, and tobacco £3,295,000.¹

¹ In 1907 the duties on grain, other cereals and malt, yielded 4·27 marks per head of population, petroleum 1·23, coffee 1·22, wine 0·37, timber 0·33, lard 0·22, "southern fruits" 0·18, butter and margarine 0·13, cattle and sheep 0·12, raw cocoa 0·11, rice 0·10, meat and extracts thereof 0·09, oil-seeds 0·09, and spices and cheese 0·08 each. The highest average yield in the case of manufactured goods was supplied by iron and steel goods with 0·14 mark per head; then came cotton yarns with 0·12, cotton textiles with 0·10, machinery 0·09, woollen textiles and silk goods 0·07 each, and wooden goods 0·05.

This is not the place to discuss the financial difficulties which have perplexed the Government of the German Empire, and in a lesser degree the Governments of the several States, in the last few years, or the political effects of the attempts to find a solution of the problem. It must suffice here to point out that the failure of the revenue to keep pace with the rapid increase of expenditure, and the consequent doubling of the Imperial Debt within twelve years,¹ have been due in part to bad financial administration, and in part to the exigencies of political policy. The first defect has been generally recognised ; there has been a widespread demand for reform, and it is hoped that something may have been accomplished in this respect. As regards policy, in order to placate the States, to prevent financial demands which might cause them to strain against the federal bond, the Empire deliberately confined itself in the main to indirect taxation, and then handed over to its constituent States the major part even of the revenue derived from the kind of taxation which it reserved for itself. Thus on the one hand it limited its own resources, and on the other it encouraged (indirectly, but not the less effectively) expenditure

Tobacco, beer and spirits, sparkling wines, sugar and salt are subject to customs and excise duty ; but the yield of the customs duties on these articles (except tobacco) is quite small.

¹ The permanent debt of the German Empire was £106,000,000 in 1896, and £212,000,000 in October, 1908 ; since then it has been largely increased, and in February, 1910, had reached nearly £250,000,000.

by the States.¹ When the development of Imperial expenditure made it necessary for the Empire to call upon the States for large contributions towards Imperial purposes, the financial position of the States was not such as to enable them to meet the demand.² The Imperial Government felt it necessary in 1908 to devise means of obtaining some £25,000,000 a year of additional revenue, and inasmuch as there is in some quarters a strong desire to prevent, so far as possible, the intrusion of the Imperial Government into the sphere of direct taxation, the preserve of the States,³ and as its proposals for the introduction of an estate duty and monopoly of the retail sale of spirits were rejected, it was ultimately reduced to taxation upon articles of general consumption (beer, spirits, sparkling wines, tobacco, coffee, tea and matches), upon incandescent lamps and burners, mantles and carbons, and upon a number of commercial instruments (real property transfers, dividend coupons, securities, bills of exchange and cheques).

The salient feature of the long and complicated

¹ Details of the financial history of the Empire will be found in *Denkschriftenband zur Begründung des Entwurfs eines Gesetzes betreffend Änderungen im Finanzwesen*, issued by the German Government in 1908.

² The cumbrous system under which all the customs revenues in excess of £6,500,000 a year was divided among the separate states, which in turn paid to the Empire matricular contributions towards its expenditure, was convenient for the States so long as they received more than they paid; but when the situation was reversed after 1899, they found themselves in grave difficulties.

³ To some German politicians, as to those of other federal states, the exclusion of the central Government from the sphere of direct taxation is regarded as an essential safeguard of the federal principle.

parliamentary history of the discussions on financial reform was the revival of the hostility between the "industrial" and "agrarian" interests. The former alleged that, as in the tariff, so also in the financial proposals, they were being sacrificed, because of the political power of the landowning classes and their refusal to take a due share of the new burden of taxation—a share which, as the result of the high protection accorded by the German tariff, they were alleged to be fully able to bear. The resentment of the "industrials" found its expression in the formation of the so-called "Hanseatic League," to guard the interests of the manufacturers and merchants. At the same time the new consumption taxes, coming as they do after the increase of the customs duties, in a period of a general rise of prices and of trade depression, will undoubtedly be a serious addition to the national burden; and it may be that these two factors may substantially affect fiscal and economic policy. There is not a shadow of doubt that the industry, commerce and wealth of Germany has increased, and is increasing with very marked rapidity; that there has been a progressive amelioration of the condition of the mass of her people in respect alike of wages, hours of labour, and standard of living; that her commercial and political power has been greatly enhanced; that the ability of her subjects to bear the burdens of world power has been much developed; and that the depression under which her industry and commerce have

suffered during the past two years, though severe, has neither been disastrous nor is likely to be long continued; but it may well be that a period of quieter and less rapid development than that which she has undergone in the last decade would be to the advantage alike of her economic and political well-being.

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PART II

THE UNITED STATES

CHAPTER I

THE ORIGINS OF AMERICAN COMMERCIAL POLICY

THE economic relations between the constituent states of the American Union at the end of the War of Independence resembled closely the condition of affairs in the Germanic Confederation after the Congress of Vienna. The separate colonies had been allowed by Great Britain to impose customs duties for revenue purposes, and had also been influenced somewhat by protectionist ideas;¹ and although after 1776 this latter motive seems to have lost its force, the customs duties continued to be levied by each state against all others, including even its fellow-members of the Union. Yet the feeling in favour of freedom of trade was sufficiently strong—partly as the result of reaction against the restrictive policy of Great Britain—to restrain the new Confederation from imposing any tariff laws between 1776 and 1781.² There were practically no manufactures to protect; the colonies were almost entirely engaged in agri-

¹ Stanwood, i. p. 25, quotes from the preambles to the Revenue Acts of various colonies. Cf. Hill, pp. 14-16.

² Hill, pp. 39-40.

cultural pursuits or in the carrying trade; and although there was a certain amount of iron produced, yet "in the main, the colonies made only such manufactures as could not be imported."¹ When from 1782 onwards a change came over American policy, and tariff legislation began, the determining forces seem to have been chiefly political—the necessity of raising money for the purposes of government, and the desire to be able to meet and resist the commercial legislation of the European Powers, and particularly the high tariff and Navigation Acts of Great Britain.² These considerations drove the States rapidly from political into commercial union; and after some years of uncertainty, owing to the unwillingness of some members of the Union to surrender their liberty of economic action, the Constitution of 1787 settled that "Congress shall have power to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defence and general welfare of the United States; but all duties imposts, and excises shall be uniform throughout

¹ Taussig, p. 10.

² "At first the rates were low and the articles taxed few, being generally luxuries or commodities the importation of which was thought harmful. In this category slaves, rum, spirits and wine, tea, coffee, and sugar held important places. The Southern States did not go beyond these purely revenue measures. In all the Northern States rates were advanced and other articles were added to the list, until in 1785 and 1786 the tariff schedules were generally extensive and taxes were imposed for both revenue and protective purposes, or, to use a phrase of more recent times, for revenue with incidental protection. In some of the states, indeed, protection was the principal end sought" (Hill, p. 43).

the United States ; . . . to regulate commerce with foreign nations, and among the several States, and with the Indian tribes ; . . . to make all laws which shall be necessary and proper for carrying into execution the foregoing powers.”¹

The first use made by Congress of the authority so conferred appeared in the Tariff Act of 1789. It was a combination of specific and *ad valorem* duties, and was to continue in force for seven years. Specific duties—a fixed tax on a given amount of each commodity—were imposed on thirty-six articles, the chief being spirits (8–10 cents per gallon), tea (6–20 cents per lb.), sugar, salt, molasses, cordage, steel (56 cents per cwt.), and nails ; and there were *ad valorem* duties of 15 per cent. on carriages, 10 per cent. on glass, china, earthenware, lace, and some other commodities ; $7\frac{1}{2}$ per cent. on paper, gloves, leather, buttons, clothing, hats, and metal wares, and 5 per cent. on all other imports except seventeen raw materials (such as saltpetre, wool, cotton, hides, fur, dye-stuffs), which were admitted free.² Drawbacks of the full duty less 1 per cent. were granted for all commodities re-exported within twelve months ; and finally, to stimulate the American carrying trade, an abatement of 10 per cent. of the duty leviable was given on all goods imported in vessels owned entirely by American citizens. Though the duties thus imposed were, on the whole, quite moderate, it is by

¹ Art. i., sec. 8. See text in Bryce, *Amer. Commonwealth*, i. p. 700.

² Stanwood, i. pp. 58–60.

no means certain that the legislation was inspired solely by financial needs.¹ It is true that these were considerable, and in face of the widespread dislike to direct taxation and to excises they could only be satisfied by recourse to customs duties; but it is also clear that in the minds of many of its supporters the Act had a protective purpose, and for that very reason it called forth a good deal of opposition, particularly from the Southern States. It was a policy of Protection, chiefly for manufactures, modified partly by the inexperience of the legislators² and partly by regard to considerations of revenue.³ In the very next year, after Hamilton, the Secretary of the Treasury, had failed to secure an Excise Act, the tariff was increased all round to meet the growing financial needs of the Union; the specific duty on steel was advanced from 56

¹ "It has often been said that the first Tariff Act, that of 1789, was a protective measure, and that in the debate on it the protective policy appeared full grown. But such considerations had little to do with the Act; and the discussions on Protection by no means indicate what was the real centre of interest. . . . Its main object was to secure revenue."—Taussig, pp. 14-15.

² Channing, *United States*, p. 139.

³ For the evidence that protective considerations did weigh with the promoters of the measure, see Hill, pp. 108 *seq.*, and the account of the debates given by Stanwood, i. pp. 39 *seq.* Mayo-Smith and Seligman, p. 6, agree with Taussig, and remark that "it is erroneous to speak of any protectionist movement at this period"; but this seems to be based on the idea that the authors of the tariff did not regard average duties of 8½ per cent. *ad valorem* as protective—a supposition which is not proved, and is in direct conflict with the preamble to the Act, which asserts that "it is necessary for the support of the Government, . . . and the encouragement and protection of manufactures, that duties be laid," etc. Dewey (p. 84) holds that the evidence as to the consciously protective character of the tariff is conclusive.

to 75 cents per cwt., and many articles previously in the 5 per cent. *ad valorem* list were now made subject to $7\frac{1}{2}$ per cent. and 10 per cent. In the following year an excise on spirits (somewhat lower than the customs duty) was established; but it was always unpopular and difficult to collect, and in 1802 was finally abandoned.

In 1790 Congress had directed the Secretary to the Treasury to prepare and report plans "for the encouragement and promotion of such manufactories as will tend to render the United States independent of other nations for essential, particularly for military, supplies." Hamilton replied in December, 1791, with a "Report on Manufactures," which remains still one of the most elaborate general arguments for Protection, and contains most of the ideas which multitudes of writers have since developed.¹ There is the argument from the desirability of national self-sufficiency. "Every nation . . . ought to endeavour to possess within itself all the essentials of national supply. These comprise the means of subsistence, habitation, clothing, and defence. The possession of these is necessary to the perfection of the body politic, to the safety as well as to the welfare of society. The want of either is the want of an important organ of political life and motion; and in the various crises which await a state it must severely feel the effects of any such deficiency." There is the advocacy of the home market, though primarily

¹ Full text in Taussig, *State Papers and Speeches on the Tariff*.

in the interests of the agricultural producers ; the restrictive policy of European Powers, and the fluctuations of their crops, make the foreign market too unreliable for the American farmer ; it is therefore desirable to create for his produce the largest possible demand at home, and this can best be done by promoting "manufacturing establishments." "This idea of an extensive domestic market for the surplus produce of the soil is of the first consequence. It is of all things that which most effectually conduces to a flourishing state of agriculture." But the firm establishment of the necessary manufactures in the face of foreign competition is a task of great difficulty, and so we naturally come to the famous "infant industries" argument. "Whatever room there may be for an expectation that the industry of a people, under the direction of private interest, will, upon equal terms, find out the most beneficial employment for itself, there is none for a reliance that it will struggle against the force of unequal terms, or will of itself surmount all the adventitious barriers to a successful competition which may have been erected either by the advantages naturally acquired from practice and previous possession of the ground, or by those which may have sprung from positive regulation and an artificial policy"—this last phrase doubtless a reference to Great Britain. Finally, Hamilton argues that any increase of prices arising from Protection will soon be more than counterbalanced by the increase of production, and resulting cheapness, which it

will call forth ; and he urges the essential harmony of the industrial and agricultural interests, since the farmers may have to pay more for a time for manufactured goods, but will find the value of their farms enhanced by the growth of the demand for agricultural produce, both food and raw material.¹ As definite proposals he recommends the grant of bounties, the free admission of raw materials (or the payment of drawbacks), and general protection against all manufactured articles which can be produced in the country.²

¹ "Though it were true that the immediate and certain effect of regulations controlling the competition of foreign with domestic fabrics was an increase of price, it is universally true that the contrary is the ultimate effect with every successful manufacture. When a domestic manufacture has attained to perfection, and has engaged in the prosecution of it a competent number of persons, it invariably becomes cheaper. . . . The internal competition which takes place soon does away with everything like monopoly, and by degrees reduces the price of the article to the minimum of a reasonable profit on the capital employed. . . . In a national view, a temporary enhancement of price must always be compensated by a permanent reduction of it. . . . Indeed, all the duties imposed on imported articles, though with an exclusive view to revenue . . . except where they fall on raw materials, wear a beneficent aspect towards the manufactures of a country."

² Hamilton enumerates, as articles the manufacture of which had attained a substantial development at the date at which he wrote : tanned leather, boots and shoes, harness and saddlery, portmanteaus and trunks, gloves ; bar and sheet iron and steel, nail rods and nails, agricultural implements, stoves, household utensils, anchors, tools and arms ; ships, cabinet wares, and joinery ; cables, sailcloth, cordage and twine ; bricks, tiles, and pottery ; spirits ; paper ; hats ; refined sugar ; oils, soap and candles ; copper and brass wares ; tin wares ; carriages ; tobacco ; starch ; colours and gunpowder ; and other articles. In addition to these, which "are carried on as regular trades and have attained to a considerable degree of maturity," there was also "a vast scene of household manufacturing"—*e.g.*, coarse cloths, coatings, serges and flannels, woollen and cotton hosiery, cotton and linen shirtings, sheetings, etc.

From 1790 onwards there were constant alterations in the tariff—between 1792 and 1816 there were some twenty-five Tariff Acts passed, all modifying the customs duties in one way or another. But Hamilton's Report, and the ideas it embodied, do not seem to have exercised any special influence on the legislation of this period; the motives were always financial.¹ Up to 1808 there were increases of duties on various commodities; some specific duties were replaced by duties *ad valorem*; and some articles (chiefly those useful for military purposes) were added to the free list. Alone in the duty imposed in 1804 on window glass "was any concession made to the protective policy."² But whilst this was the policy of Congress, it is evident that the feeling in favour of Protection was growing in the country at large. It was held back by the general prosperity of American trade during the Napoleonic wars, until the United States became involved in the European complications after the year 1807; before that date the American export and carrying trade had reaped great benefit from British difficulties. The following table shows the movement of the foreign trade of the United States from 1791 to 1807 (in million dollars):³

¹ "With two or three exceptions, they had no other motive than to adjust the revenue to the needs of the Treasury" (Stanwood, i. p. 111). (J. Taussig, p. 16).

² Stanwood, i. p. 115. Hamilton had recommended in 1791 a bounty on the production of window-glass.

³ Taussig, p. 12.

| Financial Years ending September 30. | Gross Imports. | Gross Exports. | Re-exports of Foreign Produce. |
|---|-------------------|-------------------|-----------------------------------|
| 1791 | 29·2 | 19·0 | 0·5 |
| 1792 | 31·5 | 20·7 | 1·7 |
| 1793 | 31·1 | 26·1 | 2·1 |
| 1794 | 34·6 | 33·0 | 6·5 |
| 1795 | 69·7 | 48·0 | 8·5 |
| 1796 | 81·4 | 67·0 | 26·3 |
| 1797 | 75·4 | 56·8 | 27·0 |
| 1798 | 68·5 | 61·5 | 33·0 |
| 1799 | 79·0 | 78·6 | 45·5 |
| 1800 | 91·2 | 71·0 | 39·1 |
| 1801 | 111·3 | 94·0 | 46·6 |
| 1802 | 76·3 | 72·0 | 35·7 |
| 1803 | 64·7 | 55·8 | 13·6 |
| 1804 | 85·0 | 77·7 | 36·2 |
| 1805 | 120·6 | 95·5 | 53·2 |
| 1806 | 129·4 | 101·5 | 60·3 |
| 1807 | 138·5 | 108·3 | 59·6 |

The most striking column here is that of re-exports, which represents the growth of the carrying trade of the United States, and the commercial importance of the war to that country is most markedly illustrated by a comparison of the figures for 1802 and 1803, the years of the Treaty of Amiens, with those which immediately precede and follow them.

But with 1808 a change came. In November, 1806, Napoleon had replied to the British blockade of the French coast by the Berlin Decree, which declared the British islands blockaded, and forbade all trade in British goods. Great Britain answered by proclaiming the continental coasting trade—at least for ports under French control—closed to neutrals, and at the end of 1807 ordered “the condemnation of any American vessel seized while on a voyage to any European port closed to British

vessels, unless such vessel had first touched at a British port. Napoleon, on his part, in the Milan Decree (December 17th, 1807) declared that any ship which had obeyed the above order was good prize if seized in any port under his control. At this time, Napoleon was the virtual master of all the continental ports except those of Sweden, Norway, and Turkey, and the British were supreme on the ocean. These orders and decrees, therefore, provided for the speedy annihilation of American shipping, and this seems to have been the object of the last British Order in Council, if one may judge from a perusal of Mr. Perceval's correspondence on the subject. The official reason as stated was a desire to compel the United States to retaliate upon the French Government."¹ But it was not to be expected that the United States would quietly submit to this treatment. On December 23rd, 1807, Congress passed the Embargo Act, which prohibited American vessels from leaving for foreign ports, and foreign vessels from taking any cargo except that already on board. The vigorous enforcement of these orders on both sides—for although in March, 1809, the Embargo Act was repealed, it was replaced by the establishment of Non-Intercourse with France, Great Britain, their allies and colonies—was one of the chief causes of the Anglo-American War of 1812.

With the political effects of these various regulations we are not concerned; but they were of great

¹ Channing, *United States*, pp. 177-8.

importance in relation to the economic development of the United States. The following table shows the movement of American foreign trade (in million dollars) from the issue of the Embargo at the beginning of 1808 to the end of the war.¹ It should be noted that at the commencement of the war of 1812 the United States import duties were doubled.

| Year. | Gross Imports. | Gross Exports. | Re-exports of Foreign Produce. |
|-------------|----------------|----------------|--------------------------------|
| 1807 | 138·5 | 108·3 | 59·6 |
| 1808 | 57·0 | 20·4 | 13·0 |
| 1809 | 59·4 | 52·2 | 20·8 |
| 1810 | 85·4 | 66·7 | 24·4 |
| 1811 | 53·4 | 61·3 | 16·0 |
| 1812 | 77·0 | 38·5 | 8·5 |
| 1813 | 22·0 | 27·9 | 2·8 |
| 1814 | 13·0 | 6·9 | 0·1 |

So by 1814 American foreign trade had practically ceased to exist. The war was equivalent in its effects to a policy of Protection amounting to prohibition, and American manufactures, left in secure possession of the home market, entered upon a course of rapid expansion. Especially was that the case with the production of woollen goods, which increased in value from four million dollars in 1810 to nineteen millions in 1815;² and with cotton spinning, which it is estimated employed 4,500 spindles in 1805, 87,000 in 1810, and 130,000 in 1815.³ There were the beginnings of the manu-

¹ Taussig, p. 12.

² "A loose, though significant guess" (Taussig, p. 40 n.).

³ Taussig, p. 28, from Woodbury's Report of 1836.

facture of cotton textiles on a large scale, and a marked development of manufacture of iron, glass, and pottery.¹ It was during these years that the factory system began (but only began) to replace domestic industry in the United States: "the manufacture of cotton and wool passed rapidly from the household to the mill; but the methods of domestic and neighbourhood industry continued to predominate, even in those industries, down to and including the decade between 1820 and 1830."²

Just at the close of 1814 a treaty of peace was signed by Great Britain and the United States, and this was followed in 1815 by a commercial agreement, intended at first for four years, but prolonged in 1818 for another ten years; by it the contracting parties bound themselves not to impose discriminating duties on each other's products.³ The first result of the cessation of hostilities was a swift rise of imports; from \$13,000,000 in 1814 they rose to \$113,000,000 in 1815 (with only six months of peace), and \$147,000,000 in 1816. This last was the highest figure yet recorded, and moreover, as re-exports were comparatively small, "the value of net imports was almost double that of any year pre-

¹ "See what has been, only by the short operation of the Embargo and Non-Intercourse Act, done in America! . . . We have here before us the seeds of a great event—nothing less than the complete and absolute independence of America upon English manufactures" (William Cobbett, quoted in Bolles, ii. p. 289).

² *Twelfth Census of the United States*, vii. p. liii.

³ Channing, *United States*, p. 198.

ceding the war.”¹ The phenomena of Continental Europe at this time were repeated in the United States; the barriers erected during the long war were removed, and both continents found themselves exposed to a sweeping invasion by British manufactured goods, which severely threatened the very existence of some at least of the industries which had grown up under the shelter of the system of prohibition. In the United States the manufacturers of cottons, woollens and chemicals thought themselves particularly imperilled, and in 1815 President Madison called Congress to their help. “Under circumstances giving a powerful impulse to manufacturing industry,” he wrote,² “it has made among us a progress and exhibited an efficiency which justify a belief that with a protection not more than is due to the enterprising citizens whose interests are now at stake, it will become at an early day not only safe against occasional competitions from abroad, but a source of domestic wealth and even of external commerce. In selecting the branches more especially entitled to the public patronage, a preference is obviously claimed by such as will relieve the United States from a dependence on foreign supplies, ever subject to casual failures, for articles necessary for the public defence or connected with the primary wants of individuals. It will be an additional recommendation of particular manufactures where the materials for them are extensively drawn from

¹ Stanwood, i. p. 131.

² *Seventh Annual Message*, 1815.

our agriculture, and consequently impart and insure to that great fund of national prosperity and independence an encouragement which cannot fail to be rewarded."

The result was the tariff of 1816, which commenced a series of enactments which for about twenty years became more and more protectionist. But the first steps were quite moderate. The original scheme was to reduce the war duties 29 per cent.—that is, to leave the permanent duties 42 per cent. higher than before the war of 1812; but the proposals were considerably modified in their passage through Congress owing to the opposition of the shipping interest and the rivalry of the various groups of States which sought protection for their industries.¹ So the proposed duty of \$1.25 per cwt. on bar-iron was reduced by the House of Representatives to 45 cents; the proposed duty on sugar was cut down considerably; instead of the desired rate of 33½ per cent. *ad valorem* cotton manufacturers obtained only 25 per cent. for three years and 20 per cent. after the expiration of that term.² That protectionist motives exercised

¹ "The difficulty is illustrated most clearly by the objections of Northern members to a protecting duty on sugar, and of Southern members to giving protection to cotton manufactures. On the question of protection to iron, the North and the South united against the Middle States" (Stanwood, i. p. 157).

² In connection with cottons the system of the "minimum valuation" was adopted; i.e., it was directed that all cotton cloths, etc., "the original cost of which at the place imported shall be less than 25 cents per square yard, shall be taken and deemed to have cost 25 cents per square yard, and shall be charged with duty accordingly." Taussig writes (p. 30): "After 1818 the use of the power-loom, and the fall in

a strong influence over the tariff discussions there can be no doubt, but they had not yet obtained a complete control over the minds of the legislators.¹ The new tariff was a combination of specific and *ad valorem* duties.

The new customs laws seem to have had little effect, so far at least as the iron and cotton industries were concerned. The imports of bar-iron rose from 12,293 tons in 1816 to 21,160 tons in 1817, and, after a temporary decline, to 22,459 tons in 1820, whilst the home production fell rapidly—in part doubtless because of the technical defects in the manufacturing processes in vogue. Similarly in the cotton manufacture “the tariff of 1816 was not protective so far as those establishments were concerned which had not the most efficient machinery. This is almost equivalent to saying that it was protective in relation to but one factory in the country.”² The help given to the makers of woollens by the duties was also only slight; and

the price of raw cotton, combined greatly to reduce the prices of cotton goods. The price of coarse cottons fell to 19 cents in 1819, 13 cents in 1826, and 8½ cents in 1829. The minimum duty became proportionately heavier as the price decreased, and in a few years after its enactment had become prohibitive of the importation of the coarser kinds of cotton cloths.”

¹ Taussig (pp. 18-19) seems to think that the new duties (averaging 20 per cent.) were the outcome chiefly of financial needs. Dewey (p. 162) holds that “Protection was adopted as a fundamental basis of the fiscal system, and revenue was subordinated to industrial needs.” He adds, however, that there was little opposition, because the country was confronted by a real crisis.

² Stanwood, i. p. 173. *Cf.* for the effect of the various duties, Taussig, pp. 34-5, 40-1, 50-1.

the three industries soon began to invoke again the aid of Congress. In 1818 they secured an increase in the duty on bar-iron, and a prolongation of the 25 per cent. on cottons until 1826 ; but apart from these increases, the protectionist movement for some time met with little success. This was due in part to the attitude of the Southern States, where agriculture was prosperous owing to the world-wide demand for their cotton and tobacco ; they believed that protection for manufactures, which were supposed to be practically impossible under the climatic conditions of the South and with slave labour, would be inimical to their interests. Moreover, in politics it was the "era of good feeling"—there were no organised political parties to seek an electoral advantage in the advocacy of Protection. But in 1818-19 there came an economic crisis ; the prices of the agricultural staples of the United States, hitherto high, fell rapidly, thus imitating the prices of manufactured goods, which had declined sharply when the conclusion of the war had removed the restrictions on imports. This fall in agricultural prices to some extent benefited the manufacturers, but did not moderate their demand for protection ; and the agriculturists, especially in the North, became more favourable to it in their desire—in view of European legislation—to develop the home market.¹ Thus one important effect of the crisis was to revive and strengthen the agitation in favour of more protection, just as the crisis

¹ Taussig, pp. 19-24.

of 1873 and the following years in Germany prepared the way for Bismarck's tariff legislation. In 1819 the Congressional Committee on Manufactures, under the stimulus of the commercial trouble of that year,¹ brought forward proposals for a complete revision of all the tariff rates, with large increases all round, partly to provide revenue to meet a growing deficit in the national accounts, and partly to extend the protection already given to manufactured goods. There was a prolonged conflict, and in April it was carried through the House of Representatives only to be summarily rejected by a majority of one vote in the Senate.

From 1820 to 1824 there was some agitation throughout the Union in favour of tariff changes, but practically no attempt was made to give expression to it in the legislature until the new Congress, to meet at the end of 1823, had been elected. The effect of the census of 1820, which determined the apportionment of seats in the House of Representatives,² had been to increase the repre-

¹ "Its causes were complex: in part the inability of the manufacturing industries to recover a stable footing after the abnormal growth occasioned by the embargo and the war, and in part a spirit of speculation developed by several years of rapid commercial expansion and bad banking" (Dewey, p. 166).

² "Representatives and direct taxes shall be apportioned among the several States which may be included within this Union, according to their respective numbers. . . . The actual enumeration shall be made within three years after the first meeting of the Congress of the United States, and within every subsequent term of ten years. . . . The number of Representatives shall not exceed one for every thirty thousand" (Original form of art. i., sec. 2 of the Constitution, given in Bryce, *Amer. Comm.*, i. p. 697).

sensation of the Middle States—New York, Pennsylvania, Ohio, Kentucky, Tennessee—which were strongly protectionist. President Monroe invited the new Congress to “a review of the tariff for the purpose of affording such additional protection to those articles which we are prepared to manufacture, or which are more immediately connected with the defence and independence of the country.” The response to this appeal was the ‘Tariff’ Act of 1824, of which “it may be said without reservation that the sole object was the protection of manufactures”;¹ the financial position of the Government made it unnecessary to consider revenue.² It increased the duties on iron,³ lead, wool, hemp—though not so much as those interested had desired; on cotton and woollen goods the *ad valorem* duties were raised from 25 to 33½ per cent., but the additional protection to woollens was discounted by

¹ Stanwood, i. p. 202.

² In the course of the debates Henry Clay, the most conspicuous of the legislative advocates of increased Protection, drew a most gloomy picture of the state of the country, with general distress, diminished exports and home trade, depression of shipping, financial stringency, unemployment, reduced wages, depreciation of the value of property, and other ills (*Speech* of March 30-31, 1824). Daniel Webster, who as a representative of New England occupied a difficult position (*vide infra*, p. 187), in the same debate, whilst admitting that there had been a considerable depression of prices and curtailment of profits, and that there existed in some parts of the country “a great degree of pecuniary embarrassment,” asserted that “with these qualifications the general state of the country may be said to be prosperous, and they are not sufficient to give to the whole face of affairs any appearance of general distress.”

³ The estimated annual consumption of iron was from 48,000 to 50,000 tons, and the home production amounted to only about 17,000 tons (*Webster, Speech* of April, 1824).

the doubling of the duty on raw wool. Strong opposition came from the commercial classes of New England to the tariff as a whole; from the shipbuilders to the increases on hemp (for cordage), flax and iron; from the manufacturers there to the increases on molasses (for rum) and raw wool. But New England was not solid in its resistance to the new tariff, for it had itself growing manufactures of cotton and woollen goods; and hence its vote was divided.¹ The South was united; it exported cotton largely, and feared retaliation, particularly from Great Britain. The Middle and Western States, whose interests were chiefly agricultural, threw their whole weight on the side of the new proposals, partly in their desire for the development of the home market, and partly to obtain protection for their hemp, wool and flax.² The combination of these States and the manufacturers of New England carried the Act of 1824, but only by a

¹ In the division on the Bill of 1819, 19 New England representatives voted for it, 18 against; New York, New Jersey, Pennsylvania, and Delaware gave 55 votes for, 1 against; the South, 8 for, 63 against; Ohio, Illinois, and Indiana, 8 for, none against (Stanwood, i. pp. 192-3). In 1824 the South voted against the proposed tariff, the Middle and Western States for; of the New England States, Rhode Island and Connecticut for, the rest against (Taussig, pp. 74-5). Daniel Webster's position (*Speech* of April, 1824) illustrates the difference of opinion which prevailed in New England. As a Massachusetts representative, he favoured a higher duty on woollen manufactures, but was opposed to the duties on wool to be imposed in the interests of agriculture; he thought the lower grades of cotton goods had sufficient protection, but favoured higher rates of duty in respect of cotton manufactures of a higher grade; and in the interests of shipping opposed the increases proposed in respect of iron, hemp, and copper.

² Taussig, pp. 70-5.

small majority. In the course of the debates the doctrine of so-called "American policy," as already adumbrated in the Report of Alexander Hamilton in 1791, and Monroe's Message of 1815, made its appearance as a political force,¹ and from that time onward the tariff question bulks largely in the party politics of the United States.

Two other points about the proposals of that year are noticeable. A clause providing for the imposition of a surtax equivalent in amount to the bounty paid by a foreign country on any goods imported into the United States was rejected, on the ground that it would be a breach of the Commercial Treaty of 1815 with Great Britain, which guaranteed that no unfavourably discriminating duties should be imposed by the United States on commodities coming from that country. And much more important than this was the question whether the levying of import duties for protective

¹ It found its expression in the great speech of Henry Clay, who followed to a large extent the lines laid down by Hamilton: "It is most desirable that there should be both a home and a foreign market. But with respect to their relative superiority, I cannot entertain a doubt. The home market is first in order and paramount in importance. The object of the Bill under consideration is to create this home market, and to lay the foundations of a genuine American policy. It is opposed; and it is incumbent upon the partisans of the foreign policy (terms which I shall use without any invidious intent) to demonstrate that the foreign market is an adequate one for the surplus product of our labour." He proceeds to argue that it cannot and will not be so, partly because the growth of American producing capacity is outpacing, and will continue to outpace, the growth of the consuming power of foreign countries—an extraordinary doctrine; and partly because the policy of all Europe is adverse to the reception of competing agricultural products from the United States.

purposes was constitutionally within the power of Congress or not ; the matter was raised only tentatively, and was not much discussed, but it was subsequently to form the subject of very considerable controversy.¹

¹ Stanwood, pp. 220-5.

CHAPTER II

THE GROWTH OF PROTECTION, AND THE COMPROMISE OF 1833

FOR a short time after the passing of the Tariff Act of 1824 the manufacturers seem to have been satisfied ; but in the latter part of 1826 a demand for a greater amount of protection made its appearance amongst the producers of woollen goods. Their complaint was to the effect that the British duties on raw wool had been reduced, that wages in Great Britain were lower, and that consequently they were unable to compete effectively with the British manufacturers, and were in a very depressed state.¹ They did not ask for a reduction of the duty on raw wool—probably believing that the agricultural states would not listen to such a proposal—but for an increase in the duties on cloth. The “Woollens Bill” of 1827, introduced in response to their demands, adopted the system of minimum values. All woollen manufactures, except worsted stuffs and blankets, costing less than 40 cents per square yard were to be rated, for the assessment of duty, at 40 cents ; all costing

¹ Stanwood, i. pp. 253-4, 277.

between 40 cents and \$2.50 were to be rated at the latter figure ; and all costing between \$2.50 and \$4 were to be rated at \$4. Unmanufactured wool was to be subject to a duty of 35 per cent. *ad valorem* for one year, and 40 per cent. subsequently, and for this purpose wool costing between 10 and 40 cents a pound was to be rated at the maximum figure. The Bill was passed by the House of Representatives, but was wrecked in the Senate, mainly owing to the cross-currents of party politics. But it had revived the whole protectionist movement, and a widespread campaign commenced in which the advocates of Protection found skilful and influential exponents of their views in Matthew Carey, an energetic pamphleteer, and Niles, whose *Weekly Register* became their storehouse of facts and arguments. After the Woollens Bill had been introduced, the Free Trade party had also realised the necessity of vigorous action, and they now began a counter-campaign. But unlike previous controversies on the tariff question, the economic discussion was now to become inextricably involved with party politics ; and American tariff legislation entered upon a new stage. The "era of good feeling" was at an end ; political parties were at last taking shape again, and round Andrew Jackson there was being formed a party which represented a break with all the traditions of the past.¹

The outcome of the protectionist agitation was the Tariff Act of 1828, under which "the experi-

¹ Wilson, pp. 12-21.

ment of protecting was now to be carried to the highest point it ever reached.”¹ That Act, destined to be known as the “Act of Abominations,” was passed at a time when men’s thoughts were concentrated on the approaching presidential campaign, and the determination of the Jackson party to secure the election of their chief. The supporters of the retiring President, Adams, whose leader was Henry Clay, were definitely in favour of Protection; the Jackson party was divided—the Southern members, who were united in their support of Jackson, being in favour of a considerable reduction of duties, whilst the Middle States, whose votes would turn the election, were almost as strongly protectionist. The outcome of this peculiar position was an extraordinary series of party complications and political manoeuvres, in which Jackson’s supporters were led with astonishing skill by Martin van Buren. A Tariff Bill was framed, greatly increasing duties on manufactured goods and raw materials alike; and ultimately it was passed by a curious combination. The South voted solidly against it, as did two-thirds of the New England members; the vote of the Western and Middle States, combined with the protectionist vote from New England, carried it.² But the votes of the members were determined in the main by party considerations; many excessively high duties had been inserted in the Bill by the votes of Southern members desirous of making it

¹ Bolles, ii. p. 407.

² Taussig, p. 98.

so unpopular that it could not pass ; yet though they voted against it at the last it was carried largely by the votes of people with whom they were politically allied, who were not anxious for Protection, but meant to capture the vote of the Middle States for their presidential candidate.¹ In this they were successful ; at the election of November, 1828, Jackson was returned by an overwhelming majority.

The increases made by the new tariff in the customs duties were very considerable. The duties on hemp were raised from \$35 to \$45 a ton, though good hemp could scarcely be grown in the country ; on molasses from 5 to 7½ cents a gallon, whilst drawbacks to the manufacturers of rum were refused ; on pig-iron from 56 to 62½ cents per cwt. ; on hammered bar-iron from 90 to 112 cents per cwt., and on rolled bar-iron from \$30 to \$37 a ton.² But the chief developments had regard to wool and woollen manufactures. It is admitted that the difficulties of the American manufacturers of woollen goods in meeting British competition were due in large measure to their technical deficiencies and the preference of the American consumers for the better quality goods from Great Britain ;³ but they secured in 1828 increased specific duties on woollen goods, though to nothing like the extent which they had desired. On the other hand,

¹ The complicated story of these manœuvres can be read in Stanwood, i. chap. viii.

² Taussig, pp. 88-9, 93.

³ Stanwood, i. p. 280.

the old *ad valorem* duty on raw wool was replaced by a specific duty of 4 cents a pound, with the addition of an *ad valorem* rate which ultimately was to reach the height of 50 per cent. This particular clause seems to have been designed to secure the support of the agricultural states, and at the same time to damage the Tariff Act by making it unpopular with the manufacturers.

The passage of the Tariff Act of 1828 led immediately to one of the most fateful political conflicts in the history of the United States. We have seen that the Southern States were strongly opposed to Protection, and they were offended also by the appropriation of federal surplus revenues to the construction of public works, particularly roads and canals, almost entirely in the North, which with its growing manufactures was in urgent need of the development of its means of communication.¹ At the time when the new tariff proposals were being discussed in 1827, the inhabitants of South Carolina (always the leader of the South in action) had protested against the protective duties on the ground that "the duties laid by Congress, of whatever description, are levied in great part on articles purchased by Southern industry and consumed by the South; but these duties are expended almost exclusively for the benefit of other sections of the Union. . . . All that is taken from us is disposed of elsewhere.

¹ Jackson was opposed to this policy, but was overruled by Congress (Wilson, p. 39).

We are benefited in the South by those expenditures in no way that we can perceive and feel. All that we pay is accumulated in defending and improving distant sections of the Union, and the prosperity of the North is built upon the impoverishment of the South.”¹ The Southern States had every claim for special consideration ; in 1829 out of a total export valued at about \$56,000,000, \$34,000,000 represented the cotton, rice, and tobacco exported from the South.² The exports of raw cotton were valued at \$26,575,000, as against \$1,258,000 worth of cotton goods ; South Carolina was fourth amongst the exporting states of the Union. In the tariff of 1828 protection for manufactures had reached a very high level ; but the scheme then adopted was so thoroughly bad that all were agreed on the necessity of some changes ; and for some time therefore, though its leaders were preparing their plans, the South did not think it necessary to take decisive action.

The first changes were made in 1830. The duties were reduced on tea by 50 per cent., on coffee by 60 per cent. (and after 1831 by 80 per cent.), and on cocoa by 50 per cent., whilst the duty on molasses was put back to the old level, and the system of drawbacks renewed. But these were not all the changes required ; the agitation of the Free Trade party continued, though it is

¹ Quoted in Stanwood, i. p. 261.

² Wilson, p. 50. “The contribution of the South appears still more striking if it be compared with the total value of agricultural exports, which was a little under \$44,000,000.”

important to notice that they did not ask for a complete abolition of duties—in fact, they were willing on financial grounds to retain somewhat heavy rates. In the Petition to the Senate, from the Free Trade Convention at Philadelphia in 1831, it is stated that “the people prefer, in time of peace, duties raised on the importation of foreign merchandise to any internal tax, direct or indirect. Whether for good or for evil, that system affords an encouragement to domestic manufactures not less efficient for being incidental. *Duties on imports, amounting on an average to about 20 per cent. of the value, appear necessary to the support of Government.*”¹ The petitioners condemn the high duties of 1828, even after the changes of 1830, because without giving real help to the protected trades they hamper all the others. They point out that in the existing conditions of American industry manufacturers must have recourse to foreign supplies—they give as an instance iron goods, with growing imports in spite of increased duties²—and they complain that the

¹ Text in Taussig, *State Papers*. The Petition, which is an elaborate statement of the practical argument for Free Trade, was written by Albert Gallatin.

² The Petition gives the following figures of imports :

| Period. | Rolled Iron. | Hammered Iron. | Manufactures of Iron. |
|-----------|--------------|----------------|-----------------------|
| 1817-1820 | 2,237 tons | 16,887 tons | Not ascertained |
| 1821-1824 | 4,212 „ | 23,162 „ | \$2,600,000 |
| 1825-1827 | 5,400 „ | 22,650 „ | \$3,630,000 |
| 1828-1830 | 6,450 „ | 31,000 „ | \$3,660,000 |

duties greatly increase the cost of materials to manufacturers, especially the shipbuilders. The same petition also presents what is probably the best short statement of the Southern objections to the protective legislation : " The Southern States have always confined themselves almost exclusively to the cultivation of the rich products of their climate. This is the only advantage they enjoy, and they owe it to nature. As they make but few, they consume a much greater proportion of manufactured articles imported from other states or other countries. That system, therefore, that enhances beyond measure the price of those objects of necessary consumption operates most unequally and unjustly upon them. They are forbidden to supply themselves on the cheapest terms consistent with the revenue necessary for the exigencies of Government. As the greatest consumers, they must not only pay a greater share of the duties requisite to defray the necessary national expenditure, but they are compelled to pay the enhanced price occasioned by the protecting system. That system cannot be extended to them. They find in it no indemnity, no compensation for the injury which it inflicts upon them. They have not, they cannot, in self-defence erect manufacturing establishments. The nature of their population forbids it."¹

¹ Readers of De Tocqueville's *La Démocratie en Amérique* will remember his description (17th ed., vol. ii. chap. x. pp. 320-5) of the contrast presented to the traveller down the Ohio River by the two

Moderate men in the Northern States were anxious to make some concession to the South, and the feeling in favour of a reduction of duties was strengthened by the condition of the public finances. The customs receipts had been sufficiently large to allow of the paying-off of the National Debt with great rapidity. Between January 1st, 1828, and January 1st, 1832, the amount was reduced from \$67,475,000 to \$24,322,000, and the interest payable had fallen by one-half. Meanwhile the receipts from customs were rising; consequently, with the Congress which met in December, 1831, there began a revision of the tariff, and the new Act was adopted in June, 1832.¹ The duty on unmanufactured

banks, and his prophecy of a great conflict as the inevitable outcome of the difference between the economic and social organisation of North and South. With the opinion of the petitioners, quoted above, may be contrasted the belief of Hamilton, in his Report on Manufactures (Taussig, *State Papers*, p. 59), that "ideas of a contrariety of interests between the northern and southern regions of the Union are in the main as unfounded as they are mischievous. The diversity of circumstances on which such contrariety is usually predicated authorises a directly contrary conclusion." Forty years later De Tocqueville agreed with this: "Je vois bien dans les différentes parties de l'Union des intérêts différents, mais je n'en découvre pas qui soient contraires les uns aux autres" (*loc. cit.*, p. 369). But he anticipated conflict owing to the dissatisfaction of the South at seeing itself outpaced in prosperity and political power by the North, and the difference of temperament arising from the difference of economic conditions.

¹ A Report of the Congressional Committee which prepared the scheme contains an elaborate discussion of the relative merits of specific and *ad valorem* duties, and declares in favour of the latter on the grounds that they affect all qualities of a commodity equally, as specific duties do not unless very elaborately detailed; and that they enable the proportion of taxation intended by the legislature to be maintained in

hemp was reduced by one-third ; that on raw flax was abolished. The rates of duty on pig and bar iron were reduced, as were those on manufactured silk and a number of other articles. But the chief changes were in the case of wool and woollens ; the cheaper kinds of raw wool were admitted free, on the others the duties were considerably reduced ; on cheap woollen goods the *ad valorem* duty was reduced to 5 per cent., on worsted goods from 25 to 10 per cent. ; on other qualities they were nominally increased but practically reduced, owing to the abolition of the system of minimums.¹ The number of absolutely free articles was increased from 49 to 180 ; tea and coffee imported in American vessels were to be free. "In fact, the protective system was put back, in the main, to where it had been in 1824. The result was to clear the tariff of the excrescences which had grown on it in 1828, and to put it in a form in which the protectionists could advocate its permanent retention."² But this very fact drove the Southern States into open revolt ; so long as there was a chance, by ordinary legislative means, of overthrowing Protection, they were disinclined to have recourse to other weapons, but they interpreted the action of Congress in

spite of fluctuations of values. These advantages outweigh the disadvantage of the encouragement given to false declarations of value (Bolles, ii. pp. 415-16). For a fuller discussion of this question, see pp. 272-4.

¹ Stanwood, i. p. 384.

² Taussig, p. 105.

1832 as meaning the permanent incorporation of Protection in the fiscal policy of the Union.

The line which the leaders of the South, especially Calhoun and Hayne, would take, had already been revealed ; it was the adoption of a particular view as to the manner in which the Constitution should be interpreted. There were two possibilities : the Federal Government might be comparatively weak, and confined to the exercise of powers based on a strict and narrow interpretation of the actual terms of the Constitution, whilst the separate states enjoyed extensive rights and powers—that is to say, there could be a league of states, not a Union ; or the Federal Government might continually increase in authority, and the terms of the Constitution might be liberally interpreted at the cost of a constant diminution of the powers of the various members of the Union. Economic and political considerations alike determined the Southern States to adopt the former view. Under their climatic conditions, and with slave labour, it was believed that there could be no considerable growth of manufactures, and it was quite certain that the South would be quite outpaced in population and wealth by the North-Eastern, and still more by the Middle States. That would mean the political predominance of the North, and it seemed that the result would be the maintenance of the protective policy to which the South was so strenuously opposed—it might also mean the overthrow of slavery. The leaders of the South argued in the

tariff controversies from 1827 to 1832, as we have seen, that the policy of Protection benefited one portion of the Union at the expense of another; and as they could not prevent the passage of the Tariff Acts, they maintained that the Acts themselves were unconstitutional, whatever the courts of justice might say. They argued that customs duties for protective purposes were not within the terms of that clause of the Constitution which authorised Congress "to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the general defence and welfare of the United States"; or that even if they were so included, or could be by an application of the doctrine of "implied powers," the duties actually levied violated the rule that "all duties, imposts, and excises shall be uniform throughout the United States," since they bore more heavily upon the South than upon the North. But if the obnoxious tariff laws were passed, and maintained by the courts, what was to be done? In a famous debate in regard to public land, in 1830, Hayne, of South Carolina, had argued that "the Constitution of the Union was a compact between the states; that to make the Federal Government the sole judge, through its judiciary, of the extent of its own powers, was to leave the states utterly without guarantee of the rights reserved to them, and might result in destroying the federal character of the Government altogether; and that if the states could not defend themselves in cases where the unconstitutionality of

acts of the Federal Government seemed to them deliberate and palpable, the government might be consolidated to a point of intolerable tyranny.”¹

Authority for the action now taken in 1833 was found in the resolutions passed by Virginia and Kentucky at the time of their entry into the Union, to the effect that, “in case of a deliberate, palpable, and dangerous exercise of other powers, not granted by the said compact, the states, who are members thereof, have the right, and are in duty bound, to interpose, for arresting the progress of the evil, and for maintaining within their respective limits the authorities, rights, and liberties appertaining to them.”² The practical application of this doctrine was the method of “nullification.” On November 24th, 1832, a State Convention in South Carolina declared the Tariff Acts of 1828 and 1832 null and void within that state, and announced that, in the event of the Federal Government attempting to enforce the law, South Carolina would deem it necessary to withdraw from the Union. Jackson, originally elected with Southern support, had now been re-elected by an overwhelming majority, and whatever his personal views on the tariff question itself may have been,³ he would have nothing to do with

¹ Wilson, pp. 43-4.

² *Ibid.*, p. 45.

³ “That manufactures adequate to the supply of our domestic consumption would in the abstract be beneficial to our country there is no reason to doubt, and to effect their establishment there is perhaps no American citizen who would not for a while be willing to pay a higher price for them. But for this purpose it is presumed that a tariff of

nullification, which he declared to be "incompatible with the existence of the Union, contradicted expressly by the letter of the Constitution, unauthorised by its spirit, inconsistent with every principle on which it was founded, and destructive of the great object for which it was formed."¹ In January, 1833, a Bill was introduced into Congress, known as the Force Bill, authorising the President to use the Federal military and naval forces to enforce the tariff, wherever the collectors might encounter obstacles. But neither side was anxious to push the matter to extremes. Not all the Southern States were prepared to follow South Carolina, and the Free Traders of the North cared more for the maintenance of the Constitution than for the over-

high duties, designed for perpetual protection, has entered into the minds of but few of our statesmen. The most they have anticipated is a temporary and, generally, incidental protection which they maintain has the effect to reduce the price by domestic competition below that of the foreign article. Experience, however, our best guide on this as on other subjects, makes it doubtful whether the advantages of this system are not counterbalanced by many evils, and whether it does not tend to beget in the minds of a large portion of our countrymen a spirit of discontent and jealousy dangerous to the stability of the Union.

"What, then, shall be done? Large interests have grown up under the implied pledge of our national legislation, which it would seem a violation of public faith suddenly to abandon. Nothing could justify it but the public safety, which is the supreme law. But those who have vested their capital in manufacturing establishments cannot expect that the people will continue to pay high taxes for their benefit, when the money is not required for any legitimate purpose in the administration of government. . . . Those who take an enlarged view of the condition of our country must be satisfied that the policy of protection must be ultimately limited to those articles of domestic manufacture which are indispensable to our safety in time of war" (Jackson, *Presidential Message of 1832*).

¹ Wilson, p. 61.

throw of the tariff. On the other hand, the political leaders of the Protectionists recognised the necessity of yielding to some extent. In February Clay introduced his Compromise Bill. By it all duties in excess of 20 per cent. *ad valorem* were to be reduced by one-tenth of the excess in each alternate year up to 1839, and after that by a greater amount, so that the whole excess should be abolished by 1842; a number of duties were to be entirely abolished in 1833, and many more in 1842.¹ The result would be that by 1842 the free list would be much enlarged, and duties brought to a uniform level of 20 per cent. *ad valorem*. This amounted to "giving manufacturers ten years' notice to prepare for the final abandonment of the principle of Protection";² but it is more than probable that Clay and his friends did not anticipate any such event—they hoped that something would happen to enable the notice to be cancelled. The compromise was readily accepted by Calhoun on behalf of the South, and became law on March 2nd, 1833. On March 11th, South Carolina repealed the nullification ordinance, but also declared the Force Bill void.

As a temporary political expedient, Clay's compromise was successful in that it put an end to the crisis, but it did not settle the real question at issue. The Federal Government had asserted its right to enforce the Federal law even against the will of the individual states; but South Carolina

¹ Stanwood, i. pp. 307-8.

² Bolles, ii. p. 425.

still adhered to its doctrine of nullification. Practically, the South was victorious; it had compelled the North to repeal the obnoxious tariff, though the Force Bill remained on the statute book as a statement of the powers of the Federal Government. The problem was put aside for a time, but it was to return a generation later to be solved only by war.¹

¹ For the details of the conflict and the constitutional argument, see Wilson, pp. 23-65; Stanwood, i. chaps. ix. and x.; Johnston, *History of American Politics*, chaps. xi. to xiv.; and cf. Bryce, *American Commonwealth*, chaps. xxxi. to xxxv.

CHAPTER III

COMPROMISE, PROTECTION, AND REACTION—ECONOMIC DEVELOPMENT OF THE UNITED STATES TO 1860

FOR eight years the Customs Tariff established by the Compromise Act of 1833 remained untouched, and consequently during all that period the United States were moving steadily in the direction of the removal of restrictions upon foreign trade. The first four years, from the passage of the Act till towards the end of 1836, were a time of general prosperity, but, unfortunately, they were also coincident with the beginnings of financial disorder, resulting not from economic causes, but from the extraordinary policy of the Government.¹ The chief example of the reckless financial methods of the administration of President Jackson (1829-37) was the attack upon the United States Bank. That institution had been originally established in 1791 with a charter for twenty years, but from the first there had been considerable doubts as to the

¹ The year 1833 "marks the change, for some time impending, from rational and conservative, to reckless and destructive, finance, and from comparative prudence on the part of the business community to wild speculation" (Stanwood, ii. p. 1).

constitutional validity of the proceeding. The result was that the charter was allowed to lapse in 1811; but the bank had proved so useful that it was renewed in 1816. The Treasury had subscribed one-fifth of the bank's capital, and the President nominated one-fifth of its directors; it was the depository of the Federal revenues, its notes were legal tender for all payments to the United States Government, and it was bound to redeem its notes in specie on demand. From the first, the new Democratic party were hostile to the bank, partly because, with their theory as to the interpretation of the Constitution, they held the bank charter to be unconstitutional, in spite of a decision of the Supreme Court to the contrary effect in 1819; partly because they thought that its privileges constituted an "un-American monopoly"; and partly because they supposed it to exercise great political influence in the interest of their opponents. There seems to have been little basis for their charges in regard to this last matter, or for the further charges of mismanagement, but Jackson resolved to overthrow the bank, and when Congress passed an Act renewing the charter it encountered a Presidential veto, which the majority was not strong enough to override. Clay endeavoured to make the bank question the principal issue at the Presidential election in November, 1832, with disastrous results; the triumphant return of Jackson only strengthened his determination to destroy the bank. In September, 1833, having at last secured a Secretary of the

Treasury who was ready to help him, Jackson proceeded to withdraw the Government deposits from the bank, and not to replace them. The Federal revenues were henceforth to be deposited in certain selected state banks (*i.e.*, banks under state charters), which were not chosen always for their financial soundness, but in some cases at least for their usefulness for party purposes.¹

In the years 1835 and 1836 there was a great increase in imports,² but in spite of this the reduction of duties resulted in a diminished customs revenue. However, the sales of public land in these years were so great as to give the Treasury a huge surplus, and in 1836 the National Debt was extinguished.³ If the sales of public land were to go on, a continued surplus might be expected. The obvious course would have been to reduce taxation, but no one was willing to touch the Compromise of 1833, which had already come to possess

¹ Wilson, p. 88. Dewey (p. 209) apparently thinks that the charges against Jackson for favouritism in this matter are exaggerated; "the interests of the Government were well safeguarded."

² The following table shows the movements of imports and exports for the years 1831 to 1836 (in million £ sterling):

| Years ending September 30. | Total Imports. | Total Exports. |
|-------------------------------|----------------|----------------|
| | Million £. | Million £. |
| 1831 | 20·0 | 15·0 |
| 1832 | 19·8 | 16·8 |
| 1833 | 21·0 | 17·8 |
| 1834 | 22·6 | 21·3 |
| 1835 | 28·5 | 24·0 |

an almost sacred character. Consequently, it was decided, on the proposal of Calhoun, that on and after January 31st, 1837, all the surplus funds remaining in the Treasury above \$5,000,000 should be distributed between the various states, with the proviso, however, that money so distributed could be recalled by the Federal Government if necessary—a course never adopted, and in fact impossible. Three such distributions were made in 1837, amounting to \$37,000,000; after that there was no longer a surplus, but a deficit.

In the same period there was an extraordinary increase in the number of banks of issue (from 329 in 1829 to 788 in 1837),¹ stimulated by the new deposit system of the Federal Government, the growth of speculation, particularly in land, and the development of industry. The states exercised no control over the new banks, and allowed them, even when they possessed scarcely any capital, to issue notes freely. The country was flooded with paper money in all stages of depreciation, and prices rose rapidly. To protect itself as much as possible, the Treasury in July, 1836, issued a circular requiring all payments for public lands to be made in cash. This increased the difficulties of the money market, already very great and complicated by the calling-in of loans by English creditors;² and by the beginning of 1837 commercial credit was badly shaken. Food

¹ Dewey, p. 225.

² *Ibid.*, p. 230.

prices rose rapidly,¹ and then a sudden fall in the price of cotton, following on the over-production resulting from the rapid rise in prices between 1833 and 1835, brought a general crash. All the banks in the country ceased payments in specie.² There was a sharp decline in the foreign trade of the United States, particularly in respect of imports.³

Little, if any, connection can be shown between the economic crisis thus brought about—a crisis the origin of which was purely financial—and the tariff legislation of 1833, for the reductions of duties under the Act of that year were to be very gradual, and would not become marked until about 1840.⁴ The financial distress was due simply to the confusion into which the policy of the Jackson Administration and the growth of

¹ Between 1834 and 1837 flour rose from \$5 to \$11 a barrel, and corn from 53 cents to \$1.15 a bushel; early in 1837 there were bread riots in New York (Wilson, p. 93).

² Stanwood, ii. p. 8.

³ The value of the total imports of merchandise was, for the year ending September 30, 1836, 36.8 million £; for 1837, 27.2 millions; and for 1838 only 20 millions. In the corresponding years the total exports of merchandise were 25.9 million £, 23.2 millions, and 21.9 millions respectively.

⁴ Even Stanwood, who is strongly protectionist in sympathy, writes: "No candid student of history will hold that the Tariff Act of 1833 had even a slight direct influence, by an injurious effect upon domestic manufacture, in bringing on the crisis. The evidence is necessarily of a negative character, but it is conclusive. The fact that manufacturers were flourishing up to the time when the financial storm burst, as all authorities deemed that they were, is all-sufficing" (Stanwood, ii. p. 8). The connection of this and the following crisis with the tariff appears to have been a later invention of Henry Carey.

speculation, stimulated by the great sales of public lands and excessive credit to purchasers, had thrown the credit system of the country ; consequently there seems to have been no proposal made in any quarter for an alteration of the tariff or a return to a greater measure of protection. After the crisis there was the inevitable period of stagnation—commercial recovery was very slow ; and the general depression may have been, and probably was, increased by the knowledge of the manufacturers that under the Act of 1833 the pace of the reduction of duties was now to quicken. But, nevertheless, the efforts towards a change in the Tariff Act were very slight, and met with little support. Two financial reforms only were made. In 1838 the State of New York began the policy of permitting the establishment of any bank without the need for a special charter, on condition of its promoters depositing with the State Treasury securities to the amount represented by its issue of notes. In 1840, further, the Independent Treasury Act was passed by Congress ; under its terms the Treasury was itself to keep all the proceeds of the public revenue in its own hands (not making use of the banks), and to make and receive payments only in specie.¹

By the time of the election of November, 1840, the Democrats were utterly discredited, in spite of some diplomatic successes of Van Buren, who had succeeded Jackson as President in 1837. The main

¹ Dewey, pp. 235-7.

defects of his administration had been his steadfast adherence to the financial policy of his predecessor, and his failure to devise any satisfactory measures for dealing with the commercial situation. The new political parties had now been definitely formed; on the one side were the Democrats, led by the President himself and Benton, with their advocacy of a conservative interpretation of the Constitution and their consequent opposition to the expenditure of Federal moneys on internal improvements, to Protection, and to the National Bank; and on the other side were the Whigs, as the Republican party of Clay and ex-President Adams was called since 1834, representing many diverse elements, but agreed upon a wide interpretation of the Constitution and protective legislation. Already there were signs of the difficulties to be caused later by the anti-slavery party—a more serious menace to the Democrats than to the Whigs, since the former were dependent for much of their political strength on the South.¹ The Whigs, not so much because of their new policy as because of the discredit into which the Democrats had fallen, were able to carry the election of Harrison, a successful soldier, as President in November, 1840, and immediately upon his taking office they prepared to enter upon a course of financial legislation. They proposed to repeal the Independent Treasury Act, to re-

¹ Wilson, pp. 112-14. Cf. Johnston, *American Politics*, chaps. xiii. and xiv.

establish the National Bank, to amend the tariff in order to meet the large Treasury deficit, and also to distribute amongst the states the proceeds of the sales of public lands, so that these would not henceforth be reckoned as a source of Federal revenue. But scarcely had these proposals been put forward when the President died, and was succeeded by Vice-President Tyler. The new President was not a Whig at all, but a discontented Democrat, who had been adopted by the Whigs as one of their candidates only in order to detach a certain number of votes from their opponents and to attempt to secure doubtful states. He was by no means in sympathy with their proposals, and immediately vetoed a Bill establishing a new National Bank. The Distribution Bill was carried only after some difficulties with the President and subject to the proviso (which in fact reduced it to impotence) that the distribution should be suspended if at any time it appeared necessary for revenue purposes to levy customs duties of more than 20 per cent. *ad valorem*. As a hasty expedient to provide money, a temporary Tariff Act was passed in September, 1841, laying a duty of 20 per cent. on all merchandise previously paying less, or free; there were, however, certain exceptions to this general rule, and the proposal to tax tea and coffee was rejected.¹

¹ One of the earliest acts of the new Whig administration was the repeal of the Independent Treasury Act in 1841. The Act was restored in 1846, and has remained in force since (Dewey, pp. 239, 252-5).

By the end of 1841, the financial situation was worse than ever. In spite of large issues of Treasury notes, there was a heavy deficit, and there seemed every likelihood that the final remissions of duty, now about to take place under the Act of 1833, would still further increase the difficulties of the Treasury. This fact, coupled with the general uncertainty, probably seriously hampered the manufacturers and merchants; and the commercial troubles had again become acute. In 1841 fifty-five banks had stopped payment; in January, 1842, six states, including Pennsylvania and Maryland, were unable to meet their obligations; and by the end of April twenty-six more banks were suspended.¹ It was absolutely necessary for some action to be taken, and the only remedy which occurred to the statesmen of the United States was a revision of the tariff; after another temporary measure had been passed in June, 1842, to prolong certain duties, Congress adopted in August of that year a new 'Tariff' Act, which was carried only after much difficulty, and by means of complicated parliamentary manœuvres. It was the work of the Whigs, and was therefore on the whole decidedly protectionist;² and it was much more elaborately detailed than any of its predecessors. It was based on the Tariff Act of 1832, and in comparison with that it increased the

¹ Stanwood, ii. p. 18.

² "It marks the last triumph of the protectionist policy before the Civil War." (Mayo-Smith and Seligman, p. 9.)

duties on cotton manufactures, on glass, and on the cheapest wools, whilst it reduced the duties on woollens, wool, leather, and some other commodities. But in contrast to the level of the duties in 1841, which under the Compromise Act were drawing close to an all-round rate of 20 per cent., the Act of 1842 marks a distinct return towards Protection. The average duty was to be about 30 per cent., though on manufactured goods it was decidedly higher. There can, on the whole, be little doubt that the new Act had a distinctly beneficent effect,¹ mainly because it gave the manufacturers certainty as to the conditions under which their industries were to be carried on, and helped to improve matters in the iron and cotton industries, which contributed an impetus to all the rest. It is at any rate certain that in 1842 there began a revival of trade and commerce, and although such a revival must assuredly have taken

¹ Stanwood becomes enthusiastic on the point. "The final plunge to the 20 per cent. maximum rate of the compromise tariff was bringing the industries dependent upon protection to a standstill ; and all business suffered in the stagnation of employment, in the cessation of the movement of money and goods, which are as the circulation of the blood in the body of commerce. The adoption of any improved tariff would have removed one cause of the existing evil—the uncertainty as to the future. The enactment of a tariff which promised prosperity and health to the starved manufacturers removed all causes, and actually restored the prosperity which it promised. There is no other enactment affecting the duties on imports, the effect of which is so clear, so indisputable, as there was never another which worked so instantaneously" (ii. pp. 36-7).

Taussig is more moderate, but agrees that, in the manner indicated above, the tariff did have a decidedly good effect on the commercial and industrial situation.

place in any case, it is probable that it was quickened by the increased protection afforded by the new tariff. And from the point of view of revenue the new rates of customs duties were quite satisfactory; in the year ending June 30th, 1844, and onwards,¹ the Treasury found itself again in possession of a surplus.

But the tariff was not destined to remain long untouched. The Presidential election of November, 1844, resulted in the triumph of the Democrats, represented by Polk.² The new President was opposed to the whole protectionist system, though his colleague in the campaign, the Democratic candidate for the Vice-Presidency, was a Protectionist, and so was able to secure Pennsylvania for his party. In his first message to Congress, President Polk urged that the power of that body to levy customs duties should be exercised solely for revenue purposes; and in December, 1845, his Secretary of the Treasury, Walker, presented to Congress a lengthy report on the tariff, which was simply an elaborate argument for Free Trade.³ After expressing doubts as to the constitutional validity of protective duties, the Secretary proceeds to argue against them on economic grounds; and some passages from the Report may be quoted as

¹ Since 1844 the United States fiscal year has ended on June 30; prior to that date it ended on September 30.

² The defeat of the Whigs was due in part at least to the abstention of the anti-slavery party, who threw away their votes on an independent candidate of their own.

³ Full text in Taussig, *State Papers*.

illustrating his general line of argument. He wrote:—

“At least two-thirds of the taxes imposed by the present tariff are paid, not into the Treasury, but to the protected classes. The revenue from imports last year exceeded twenty-seven millions of dollars. This in itself is a heavy tax; but the whole tax imposed upon the people by the present tariff is not less than eighty-one millions of dollars—of which twenty-seven millions are paid to the Government upon the imports and fifty-four millions to the protected classes in enhanced prices of similar domestic articles.

“The occasional fall in prices of some articles after a tariff is no proof that this was the effect of the tariff; because from improved machinery, diminished prices of the raw material, or other causes, prices may fall even after a tariff, but they would in such cases have fallen even more but for the tariff. The truest comparison is between the present price of the same article at home and abroad; and to the extent that the price is lower in the foreign market than in our own, the duty, if equal to the difference, must to that extent enhance the price, and in the same ratio with the lower duty.

“An appeal has been made to the poor by the friends of Protection, on the ground that it augments the wages of labour. In reply it is contended that the wages of labour have not augmented since the tariff of 1842, and that in some cases

they have diminished.¹ . . . A protective tariff is a question regarding the enhancement of the profits of capital. That is its object, and not to augment the wages of labour, which would reduce those profits. It is a question of percentage, and is to decide whether money vested in our manufactures shall by special legislation yield a profit of 10, 20, or 30 per cent., or whether it shall remain satisfied with a dividend equal to that accruing from the same capital invested in agriculture, commerce, or navigation.

“The tariff is thus a double benefit to the manufacturer and a double loss to the farmer and planter—a benefit to the former in nearly a monopoly of the home market and in enhanced prices of his fabrics; and a loss to the latter in the payment of those high prices and a total or partial exclusion from the foreign market. The true question is whether the farmer and planter shall to a great extent supply our people with cheap manufactures purchased abroad with their agricultural products, or whether this exchange shall be forbidden by high duties on such manufactures, and their supply thrown as a monopoly, at large prices, by high tariffs, into the hands of our own manufacturers.

“Let our commerce be as free as our political institutions. Let us, with revenue duties only, open our ports to all the world, and nation after nation will soon follow our example. If we reduce

¹ There seems to be no adequate evidence for this statement of the Secretary.

our tariff, the party opposed to the Corn Laws of England would soon prevail and admit all our agricultural products at all times freely into her ports in exchange for her exports. And if England would now repeal her duties upon our wheat, flour, Indian corn, and other agricultural products, our own restrictive system would certainly be doomed to overthrow.”¹

Proceeding from these principles, the Secretary advocated duties for revenue purposes only, with the imposition of maximum rates on luxuries, the abolition of all minimums and of all specific duties, and the substitution of *ad valorem* rates.

The result of this policy of the President and his advisers was the Tariff Act of 1846, adopted after only a short, though at times exciting, parliamentary struggle. All minimums and specific duties were abolished, and commodities were divided into a number of classes with duties ranging from 5 per cent. to 40 per cent., and in the one case of brandy and spirits to 100 per cent. There was also a class of free articles, the chief being tea, coffee, and iron and copper ore. Manufactures of iron and other metals, wool and woollens paid 30 per cent., as did manufactures of leather and glass; cotton goods paid 25 per

¹ Bolles (ii. pp. 449-50) speaks of the British manufacturers “having zealously laboured for Polk’s election, and contributed munificently to that end.” He alleges that large sums of money were subscribed in England and expended on behalf of Polk’s candidature in the United States. Elsewhere (p. 452) he speaks of the tariff of 1846 as “sponsored by the English nation.” No satisfactory evidence for these statements is offered.

cent. On the whole, the duties were considerably lower than under the Act of 1842.

The new tariff remained in force for eleven years, with practically no alterations; during that period the United States experienced a very rapid economic development, and it will be convenient to bring together in this place some evidences of the progress made in the two decades from 1840 to 1860. The total population (white and coloured) of the United States was 17,069,000 in 1840, and had increased to 31,443,000 twenty years later.¹ By 1850 the factory system was firmly established,² but the population was still overwhelmingly agricultural; in 1850, when the first really reliable census of the United States was taken, only 12.5 per cent. of the population, and in 1860 only 16.1 per cent., were living in urban areas with more than 8,000 inhabitants.³ The quantity of wheat produced was 85,000,000 bushels in 1840, and had risen to more than double that amount

¹ In the first of these years negroes and Indians numbered 2,874,000, and in 1860 4,442,000. Allowance must be made for increases of territory (*e.g.*, in Texas and Mexico) between these dates. Between 1846 and 1857 the United States received more than three million immigrants (Stanwood, ii. p. 87). In each of the five years after 1849 the annual number was over 350,000.

² "It was not until about 1840 that the factory method of manufacture extended itself widely to miscellaneous industries, and began rapidly to force from the markets the handmade products with which every community had hitherto chiefly supplied itself. It seems probable that until about the year 1850, the bulk of general manufacturing done in the United States was carried on in the shop and the household, by the labour of the family or individual proprietors, with apprentice assistance" (*Twelfth Census*, vii. p. liii.).

³ As against 33.1 in 1900.

(173,000,000) in 1860 ; during the same period the production of corn (maize) rose from 377,500,000 bushels to 839,000,000—in both cases the supply was almost entirely for the home market.¹ In 1840 the amount of cotton grown was 1,348,000 bales,² and ten years later it had reached 2,137,000 bales ; subsequently, it underwent considerable fluctuations, but reached 4,310,000 bales in 1859, and 4,491,000 bales in 1861—the latter figure not being reached again until 1877.³ The output of cane-sugar was 248,000,000 pounds in 1840 ; subsequently, the fluctuations were more marked than even in the case of cotton, the maximum production being 525,000,000 pounds in 1854 and 87,000,000 pounds in 1857.⁴

The total value of the manufactured products of the United States was estimated in 1850 at 1,019 million dollars, and in 1860 at 1,886 million dollars.⁵ A great stimulus had been given to industry by the discovery of a number of new processes, which came into general use from about 1845 onward. The year 1838 had witnessed the invention of Nasmyth's steam-hammer, and about 1840 anthracite coal began to be used for the production of iron ; in 1841 the power-loom for carpet-weaving was invented, and some years earlier the knitting-frame had been first worked by machinery. The output of coal was in 1840 1,848,000 tons ; ten years later it was

¹ *Statistical Abstract of the United States*, 1908, pp. 689–90.

² Of 500 lb. gross weight.

³ *Statistical Abstract*, p. 690.

⁴ *Ibid.*, p. 690.

⁵ *Twelfth Census*, vol. vii., p. xlvii.

6,266,000 tons, and in 1860 13,045,000 tons (it had once exceeded this amount by nearly 1,000,000 tons in 1859¹). The production of pig-iron amounted to 287,000 tons in 1840, and by 1860 had reached 821,000 tons.² The quantity of steel rails manufactured in the United States was estimated at 24,000 tons in 1849, and 205,000 tons in 1860.³ The number of cotton spindles employed in the United States was reckoned at 2,285,000 in 1840; it rose to 3,998,000 in 1850, and to 5,236,000 in 1860.⁴ In the last-mentioned year more than two-thirds of the total number were in New England.⁵ The exports of cotton goods were comparatively small and variable, and the rapid increase of production failed to keep pace with the demand, with the result that imports also showed a marked expansion.⁶ The woollen manufacturers were hampered by the duty of 30 per cent. *ad valorem* on raw wool, and there was little advance in the production of woollens of the best quality; but in

¹ *Statistical Abstract*, p. 691.² *Ibid.*, p. 693.³ Taussig, p. 134, quoting from *Report of the Iron and Steel Association for 1876*.⁴ *Statistical Abstract*, p. 696.⁵ Taussig, p. 141 n.⁶ The following table gives some representative figures :

| Year. | Value of | |
|----------|--------------------------------------|--------------------------|
| | Domestic Production of Cotton Goods. | Imports of Cotton Goods. |
| | Million \$. | Million \$. |
| 1840 ... | 46 | 6.5 |
| 1850 ... | 62 | 20.8 |
| 1860 ... | 116 | 33.2 |

regard to the coarser goods there was distinct progress, and the census returns give the value of the products of the woollen manufacturers as 20 million dollars in 1840, 48·6 millions in 1850, and 73·5 millions in 1860.¹

The foreign trade of the United States also underwent a great expansion. The following table gives the figures of the total imports and exports, of merchandise only, from 1847 to 1857, when another alteration in the tariff was made:²

| Year. | | Total Imports. | Total Exports. |
|-------|-----|----------------|----------------|
| | | Million £. | Million £. |
| 1847 | ... | 25·5 | 32·7 |
| 1848 | ... | 30·5 | 28·8 |
| 1849 | ... | 29·4 | 29·2 |
| 1850 | ... | 36·1 | 30·1 |
| 1851 | ... | 43·9 | 39·4 |
| 1852 | ... | 43·2 | 34·8 |
| 1853 | ... | 54·9 | 42·4 |
| 1854 | ... | 62·0 | 49·4 |
| 1855 | ... | 53·7 | 45·6 |
| 1856 | ... | 64·7 | 58·6 |
| 1857 | ... | 72·6 | 61·2 |

It will be observed that from 1850 onwards there was thus, as regards ordinary merchandise, a relatively large preponderance of imports over exports, but this was counterbalanced by the great export of gold after the discovery of the Californian mines. In 1848 the gold produced in the United

¹ *Statistical Abstract*, p. 697. Against this must be set Stanwood's assertion (ii. p. 92) that "the new tariff practically ruined the woollen industry, which had revived and become fairly flourishing under the protection it received under the Act of 1842." Bolles (ii. pp. 456-7) shares this view, but both writers admit that one of the chief difficulties of the woollen manufacturers was the high duties imposed on raw wool.

² *Foreign Commerce and Navigation of the United States*, 1908, pp. 40-1.

States was valued at about \$10,000,000 ; it rose to \$40,000,000 in the following year, and then steadily to \$64,000,000 in 1853. It may be remarked that manufactured goods ready for consumption constituted 55 per cent. of the total imports in 1850, and 56·5 per cent. in 1860 ; they formed, on the other hand, only 12·7 per cent. of the exports in the former year, and 11·3 per cent. in the latter year. In spite of the lower rates of duty, the customs revenue, which under the tariff of 1842 had reached the sum of \$27,500,000, now increased by 1856 to \$64,000,000.

Contemporary with this great economic development—at once a cause and a consequence of it—there was a rapid growth of means of transport. In 1840 there were 2,818 miles of railway in the United States ; in 1850, 9,021 miles ; and in 1860, 30,635 miles. The net tonnage of the shipping registered in the United States in each of these years is shown in the following table¹ :

| Year. | Net Tonnage of United States Shipping. | | |
|-------|--|-----------------------------|-------------------------------------|
| | Engaged in Foreign Trade. | Engaged in Coastwise Trade. | Engaged in Commerce of Great Lakes. |
| 1840 | 899,765 | 1,280,999 | 198,266 |
| 1850 | 1,585,711 | 1,949,743 | 211,145 |
| 1860 | 2,546,237 | 2,807,631 | 467,744 |

It is extremely difficult to form anything approaching an estimate of the influence of the

¹ *Statistical Abstract*, 1908, p. 702. Vessels engaged in the whale fisheries are classed with those in foreign trade ; vessels engaged in the cod and mackerel fisheries with those in the coastwise trade.

tariff of 1846 upon the economic development thus briefly outlined ; the opinions of American authorities on the subject differ with the general attitude of the writers towards the whole question of Protection and Free Trade. The critics of the tariff legislation of 1846 cannot profess that it did more than slightly retard the industrial progress of the United States ; whilst its warmest supporters do not pretend that it did much to hasten the development. In fact, its effect in either direction was probably only small ; the United States were just beginning to exploit their great and varied resources, and the movement of economic development as a whole was sufficiently strong (whatever might be the case with isolated industries) to be practically unaffected by tariff enactments.¹

¹ “ The wonderful revolution which was taking place in commerce and in history makes it impossible to generalize from this experience as to the effect of import duties upon economic development ; very likely prosperity would have followed under any system of revenue laws ” (Dewey, p. 257). Cf. Taussig, pp. 116-22.

CHAPTER IV

WAR TAXATION AND ITS RETENTION FOR PROTECTIVE PURPOSES

At intervals during a period of eleven years after the passage of the Tariff Act of 1846, suggestions were made from time to time, first by the Whig Presidents, Taylor and Fillmore (1849-1853), for a revision of the tariff in order to increase the protection given to manufacturers ; but their recommendations remained unheeded, and when a change was at last made it was in the opposite direction. The Democratic successor of Fillmore, Pierce (1853-1857), repeatedly urged the reduction of the tariff duties on the ground that the Treasury was in possession of a surplus. But partly because of the party confusion caused by the break-up of the Democrats and the formation of the new Republican party, composed of the old Whigs and some of the Democrats, and partly because of the growing concentration of public interest on the slavery question, nothing was done until 1857. In that year an Act was passed, providing for a reduction of 20 or 25 per cent. all round on the rates of duty levied by the Act of 1846 ; the highest protective duty henceforward was to be 24 per cent. *ad valorem*

(except in a few special cases, such as wines and spirits), and the general level was lower than in any period since 1816.¹ The free list was extended, particularly for raw materials and the cheaper kinds of wool. The Act appears to have attracted very little public attention; no one was specially hostile to it, and the woollen manufacturers were anxious to secure the cheapening of their raw materials.² But it was somewhat unfortunate for the supporters of Free Trade that the passage of the Act, which reduced the duties to the lowest point they had reached for almost half a century, should have been followed almost immediately by a considerable financial crisis. There is no evidence that this was connected in any way with the tariff legislation, though some politicians subsequently alleged that the effect of the reductions of 1846 was now

¹ Mayo-Smith and Seligman, p. 10. The two highest rates were reduced from 100 per cent. (spirits) and 40 per cent. (wines) to 30 per cent. *ad valorem* each; the 30 per cent. duties (on such articles as manufactures of copper, brass, lead, iron and steel, glass and leather, and some cotton and woollen goods) to 24 per cent.; the 25 per cent. duties (on certain manufactures of cotton and silk) to 19 per cent.; the 20 per cent. duties (on such articles as barley, blankets, candles, linen, certain woollen and cotton manufactures, and window glass) to 15 per cent.; and so on.

² Speaking of the woollen manufactures, Stanwood (ii. p. 109) has a curious phrase: "The situation previously existing was intolerable. . . . In the prevailing state of public opinion—made up of active hostility to Protection in the southern half of the country, and of indifference in the northern half, where the slavery question absorbed popular interest and left room for the consideration of no other business questions—they were hopeless of obtaining even a hearing upon the merits of the tariff controversy. They therefore asked for and ultimately secured *such a measure of protection as was afforded by cheaper raw material.*"

first felt, because had the old protective policy been maintained the crisis of 1857 would have been greatly mitigated.¹ The disasters of 1857 were, in fact, of a familiar kind ; they were the result of the over-confidence arising from a long period of prosperity, from the consequent growth of speculation, the undue development of railways followed by a decline in the value of railway stocks, and from excessive importations ; and they were intensified by an unsatisfactory banking system and the exaggerated issue of unsecured paper money. The crisis came suddenly ; it affected the merchants and bankers rather than the manufacturers ; and there is nothing to show that it seriously hindered, even for a time, the industrial progress of the country. There was an abrupt fall in the imports for home consumption, from a value of 69·5 million pounds in 1856-7 to 50·6 million pounds in 1857-8 ; and the customs revenue declined consequently by one-third. The result was that the Treasury found itself again faced with a deficit, which continued for some time, and which it could not entirely meet even by means of loans.

The financial needs of the Government revived the protectionist movement, but action was delayed for a time by the complications of party politics. At the election of November, 1856, the Democratic candidate, Buchanan, had been elected to the presidency, and the Democratic party was openly opposed to Protection. The new Republican party

¹ So J. G. Blaine, quoted by Dewey, p. 264.

was for a time uncertain ; it contained a number of ex-Democrats, and it was unsafe at first to alienate these by a strenuous advocacy of Protection ; whilst, on the other hand, only such a definite advocacy could secure the support of the great state of Pennsylvania and some other Middle States, whose action would probably be decisive at the next election. But by 1860 the advocates of the extension of the slave power had become so identified with the Free Traders, and the Republican party was so well united, that its leaders thought it safe to avow that “ while providing revenue for the support of the general Government by duties upon imports, sound policy requires such an adjustment of these imposts as to encourage the development of the industrial interests of the whole country ; and we commend that policy of national exchanges which secures to the working men liberal wages, to agriculture remunerating prices, to mechanics and manufacturers an adequate reward for their skill, labour, and enterprise, and to the nation commercial prosperity and independence.” The Republicans controlled the House of Representatives which met in December, 1859, and therefore Morrill introduced in March of the following year the Tariff Act, which has since been known by his name. In theory it was an Act for revenue purposes only, and was to provide a remedy for the growing deficits, which amounted altogether to more than 10 million pounds for the years 1858-60 ; and it professed to restore duties to the rates of 1846. It

encountered considerable difficulties, particularly in the Senate, where there was a Democratic majority, and the way only became clear for it when at the end of 1860 the secession of the Southern States, which followed closely on the election of Lincoln to the Presidency, had withdrawn a number of Democratic Senators, and given the control of that House also to the Republicans.

The new tariff, which came into force in March, 1861, was characterised chiefly by the increased protection which it gave to the manufacturers of iron and steel and of woollen goods, and to the growers of wool; these industries being especially favoured in an attempt to capture the votes of Pennsylvania and the west for the Republican party. The rates of duty on iron and steel goods had been reduced to 24 per cent. *ad valorem* by the Act of 1857; they were now changed into varying specific duties, ranging from \$6 a ton in the case of pig iron, to \$15 to \$20 a ton for iron rails, and to a combined specific and *ad valorem* rate ($1\frac{1}{2}$ to $2\frac{1}{2}$ cents *plus* 15 per cent. *ad valorem* per lb.) in the case of steel—changes which involved a considerable increase. As regards wool and manufactures thereof, a complicated system was introduced; wool costing less than 18 cents a lb. was to pay a duty of 5 per cent. *ad valorem*; when costing 18 to 24 cents it was to pay 3 cents a lb., and when above that value 9 cents a lb. Woollen yarns and other manufactures in their turn were given *ad valorem* rates of 15 to 25 and 25 per cent. respec-

tively, with an additional "compensating" duty in each case of 12 cents a lb. In the case of a number of other commodities specific rates were substituted for the *ad valorem* rates hitherto in force, and the general effect of the changes was to raise the rates above the level of 1846.¹ But in spite of the increased protection which it afforded, the general body of manufacturers cared little for the new tariff.²

But the new tariff was short-lived; the Civil War commenced, and Congress found itself compelled to enter on a course of extraordinary financial legislation in order to meet the tremendous expenditure which the struggle involved. In August and December, 1861, duties were imposed on many articles hitherto free, and the rates on a number of commodities, such as tea, coffee, sugar, hemp, hides, rubber, silk, spices, and a few others, were largely increased. In the following year financial needs compelled Congress to have recourse to internal taxation, and the imposition of specific duties on some home manufactures, such as iron and steel, paper and leather, and *ad valorem* duties on most others; a general income tax was also established. Partly in order to raise further supplies of money, and partly to compensate the manufacturers for the burdens which the new internal taxes imposed upon them, the Customs Act of

¹ Comparative summary tables of this and other tariffs are given by Mayo-Smith and Seligman, pp. 66-72.

² Mr. Morrill is reported to have said later that the tariff of 1861 "was not asked for, and but coldly welcomed, by manufacturers, who always and justly fear instability" (Tausig, p. 160).

July, 1862, again increased duties generally, raising them to an average of 37 per cent.¹ The free list established by the Morrill Tariff of 1861 was cut down by nearly one-half. But this was not the end; after some small additions, the culmination was reached in the Act of June, 1864, which was accompanied by an Internal Revenue Act, creating twenty-two new kinds of taxes—"a system of taxation more comprehensive, more burdensome and more confused than it has ever been the lot of any other civilised community to bear"²—and the issue of a huge loan. The Customs Act raised the average duty to 47 per cent., and enumerated 1,450 separate articles; it increased the customs revenue from about 22 million pounds in 1863-4 to nearly double that amount in 1864-5.³ The diffi-

¹ Mayo-Smith and Seligman, p. 12. "If we bleed manufacturers we must see to it that the proper tonic is administered at the same time" (Morrill, quoted by Taussig, p. 162). The duties on imports were required to be paid in specie, whilst internal taxes were paid in the rapidly depreciating currency of the United States (Bolles, iii. p. 186).

² Mayo-Smith and Seligman, p. 13.

³ The following table shows the movement of imports for domestic consumption and exports of United States produce from 1861 to 1866. The Civil War began in April, 1861, and ended with the surrender of General Lee at Appomattox in April, 1865:

| Years ending June 30. | Imports for Domestic Consumption. | Exports of United States Produce. |
|--------------------------|--------------------------------------|--------------------------------------|
| | Million £. | Million £. |
| 1861 | 57·2 | 42·7 |
| 1862 | 37·2 | 37·4 |
| 1863 | 47·0 | 38·8 |
| 1864 | 62·7 | 29·9 |
| 1865 | 43·7 | 28·5 |
| 1866 | 88·2 | 27·6 |

culties arising from the heavy burden of taxation were increased enormously by the rapid rise of prices, due in part to the depreciation of the inconvertible paper currency, which reached its lowest point in the last six months of 1864, when the average gold price of 100 dollars in currency was only about 43 dollars. Average prices rose 117 per cent. between 1860 and 1865, and money wages rose only 43 per cent.¹

Unfortunately the manufacturers desirous of protection found their opportunity in the difficulties of the Government. It is true that they could reasonably claim some compensation for the heavy burdens laid upon them by the system of internal taxation which had been adopted, but they went much further than this.² They secured an almost unlimited protection, and their action and the general effect of the war tariff on the United States are thus described by two of the ablest economists of that country: "The tariff of 1864 is the real war tariff, and the basis of the present tariff. While the main reasons of its passage were without doubt the need of increased revenue for the Government and the desire to compensate the various interests for the burdens imposed on them by the internal revenue, it is undeniable that its final shape was largely owing to the endeavours of the protected manufacturers to gain each for

¹ Dewey, pp. 293-4.

² "The Bill (of 1864) is full of examples of their prowess" (Stanwood, ii. p. 129).

himself the greatest possible advantage irrespective of the other's interests. Above all, the habits engendered during this period of comprehensive protection to everything led to a crystallisation of the sentiment in favour of national exclusion and isolation. The commercial policy of the United States for many decades was moulded by the feelings and habits generated during this period of the Civil War. Henceforth the movement in favour of high protection, which still in great part dominates the American people, was to become the leading feature in the commercial and political life of the country. What was in its origin a mere temporary expedient called forth by the exigencies of a great military struggle was to become a permanent institution."¹

For a number of years after the close of the Civil War the tariff policy of the United States remained absolutely unchanged in its general character. The effects of the war had been bad enough in the North, but they were far worse in the South. In the states which had remained loyal to the Federal Government there had been indeed a terribly heavy burden of taxation, but to some extent compensation had been found for this in the growth of manufactures, which had resulted from the vast demand for military supplies and had been fostered by the high protective duties imposed by the war tariffs. But, on the contrary, the Southern States, dependent on the sale of their

¹ Mayo-Smith and Seligman, pp. 13-14.

produce in foreign markets, had found their export trade destroyed by the rigorous blockading of their ports by the Federal Navy, and had practically no manufactures capable of development; moreover, as they had relatively but a small population¹ and were compelled to maintain vast armies, there had been little labour left available for agriculture or industry. This, coupled with a system of taxation even more oppressive than that employed in the North, had brought the South almost to complete economic ruin. Now, after the war was ended, the newly confirmed Union found itself confronted with an extremely heavy debt (nearly 600 million pounds), and a greatly depreciated currency (owing to the large amounts of inconvertible paper money issued by both sides during the conflict); the great ravages caused by military operations, particularly in the South, had to be made good; and the old slave states had the difficult problem of replacing slave by free labour, at the time when they were financially least able to do so.

The most urgent task was financial reorganisation, but it was undertaken only gradually, and in a one-sided manner; the tariff remained for some years untouched in most respects. For the delay, three reasons may be assigned.² There was first

¹ The total population, white and black, of the Confederate States was about 9 millions (two-thirds being whites); the population of the Federal States was over 22 millions, less than 1 million being negroes.

² Mayo-Smith and Seligman, pp. 14-15.

the concentration of the attention of Congress on the problem of political reconstruction. The President, Andrew Johnson, was inclined to follow in the treatment of the Southern states the liberal policy of his predecessor, Lincoln. But he possessed neither the power nor the judgment of Lincoln; and, moreover, he was a Southerner, and though a strenuous supporter of the Union, inclined to hold the doctrine of state rights. The triumphant Republican party of the North would have nothing to do with the President's conciliatory policy; it meant to use its power to the utmost, and adopted the theory that it could do what it liked in the reconstruction of the Southern states, and could, so far as they were concerned, suspend the Federal Constitution indefinitely. With the policy and methods actually adopted by Congress we are not concerned here; it is necessary only to point out that it was not until the beginning of 1871 that all the states of the Union were once more represented in Congress, and that during the four years of Johnson's Presidency (1865-9) there was an incessant conflict between the President and the Legislature, which absorbed the energies of both parties.¹ The second reason was the desire to get rid as quickly as possible of the internal taxes, always peculiarly repugnant to Americans, and especially the income-tax. These constituted burdens were severely felt by everyone, and felt directly, and they undoubtedly hampered in-

¹ See Wilson, pp. 254-72.

dustry in every conceivable way. It was therefore decided to remove them as quickly as possible, and by a series of Acts between 1867 and 1872 all were swept away except the excise on beer and spirits, and duties on matches, patent medicines and a few other commodities. The heavy import duties had been imposed, professedly at least, in part to compensate the manufacturers for the burden of the internal taxes, and theoretically, therefore, either the war surtaxes on imports should have been abolished at the same time as the internal war taxes, or, if financial considerations made that impossible, there should have been a simultaneous partial reduction of both classes. But the desire to get rid of the internal taxes was too strong; it therefore became necessary to maintain the import duties at a high level in order to meet the heavy cost of government, to prepare the way for the resumption of specie payments, and to reduce the debt as rapidly as possible. This retention of duties at the high existing level coincided with the desires of the manufacturers, who flourished (or thought they flourished) as the result of the protection afforded them, and could urge with some justice that there were a number of industries which had been called into existence only by the high tariff and the war, and must collapse if protection were withdrawn. This was the third and not least potent reason; the country seems to have made up its mind without much difficulty that for a time at least the extreme protective system

must be maintained, and even in some cases increased.¹

In 1867 a Bill was introduced, prepared by a newly-appointed Special Commissioner of the Revenue, and supported by the Secretary of the Treasury, which proposed to reduce substantially the rates of duty on raw material—lumber, dyes, coal, flax and others—and to reduce slightly the rates in respect of manufactured goods. The Bill secured a majority in both Houses of the Legislature, but it did not pass, owing to the failure to obtain the two-thirds majority in the House of Representatives necessary to overcome certain technical difficulties. The attempt to reduce the rates of duties thus failed, and no further effort was made until 1870; whilst, on the contrary, two Acts were passed with the opposite effect. The first of these was the Woollens Act of 1867. During the war there had been a considerable development of the manufacture of woollen goods, owing partly to the practical cessation of the manufacture of cottons, and partly to the great demand for clothing for the

¹ "The whole industry of the country gradually adapted itself to the existence of the high tariff, and the people soon became convinced of the advantages of a policy of commercial stability. . . . Just as the country had accommodated itself to the so-called Free Trade policy of the period 1846-57, so now again the tendency seemed to be averse to any sudden change" (Mayo-Smith and Seligman, p. 15). "The country at large, and especially those parts of it in which the protected industries were concentrated, began to look on the existing state of things as permanent. The extreme protective system, which had been at first a temporary expedient for aiding in the struggle for the Union, adopted hastily and without any thought of deliberation, gradually became accepted as a permanent institution" (Taussig, p. 174).

Federal troops. With the return of peace, these abnormal conditions passed away, and the woollen manufacturers found themselves in face of a crisis. They began, therefore, as early as 1865, to bring pressure upon the Government, and they were skilful enough to make it appear that the growers of wool were in agreement with them. They succeeded in obtaining in the new Woollens Act an extension of the so-called "compensation system," which had been adopted for the first time in the Morrill Tariff of 1861.¹ The plan which had then been adopted was simply this: there was a specific duty imposed on wool, and it was therefore thought necessary to give the manufacturers, in addition to the *ad valorem* duty which was intended to afford them protection, a specific duty to compensate them for the duty on raw wool, and the consequent increase in price of their raw material.² The duties so imposed under the Morrill Act had, like all others, been increased during the war, and the manufacturers now asked for and obtained a still further advance of nearly 100 per cent. in the actual amount of the duties, though this was to some extent concealed by an elaborate reclassification. The manufacturers got

¹ Taussig, pp. 195 *seq.*

² Thus the duty on the cheaper wool was 3 cents per lb., and it was estimated that four lbs. of wool were required for each lb. of cloth; therefore the compensating duty imposed on each lb. of cloth imported was 12 cents (the theory being that this put the manufacturer in the same position over against foreign competition as if he received the wool duty free), and 25 per cent. *ad valorem* for actual protection.

more than the amount of compensation which they might perhaps have justly claimed; they benefited by the Woollens Act more than the growers of wool, yet it did not yield them anything like the results which they expected. "The Wool and Woollens Act of 1867 was designed expressly to make possible the production at a profit of goods from the wool fibre. It did not effect that object, nor did it accomplish that which was equally its object—the growing of wool at a profit. On the contrary, wool declined in price, and the manufacture of wool was greatly depressed. . . . It is not possible to doubt that the price of woollen and worsted goods must be enhanced so long as a duty is laid upon wools which are not produced in this country and which are yet necessary for mixing with the domestic wool. This is but to state a fact, and not to pronounce a judgment upon the expediency of the system. It is a consequence of the enhanced price that the consumption of woollen goods has never had, and cannot have, an expansion like that which has taken place in cotton, in sugar, in iron, and in many other articles. Wool and woollens are always the strongest arguments of the Free Trader, and the most difficult to answer."¹

Similar advances were made by the Copper Act of 1869. The duty on copper ore before the war had been only 5 per cent. *ad valorem*, and on copper bars and ingots only $2\frac{1}{2}$ cents per lb.; but

¹ Stanwood, ii. p. 169.

in the late sixties the copper mines of the Lake Superior district were producing so largely that the price of copper fell rapidly, and the mine-owners began an agitation for the increase of the import duties. Early in 1869 the duty on copper ore was made specific, and increased to something between 25 per cent. and 30 per cent. *ad valorem*, whilst the duty on copper bars was doubled. The Bill was vetoed by the President, but was passed in spite of him, and incidentally had the effect of closing a number of smelting-works at Boston and Baltimore, which had been engaged in the smelting of imported ores. At the same time, the price of home-produced copper in the United States was raised.¹ Some other increases of duty were the substitution of specific for *ad valorem* duties on steel rails in 1870—a change which made the duty heavier, as prices fell after about 1873; on marble also by the Act of 1870; on nickel, for which the rates were doubled in the same year; and even on such an important raw material as flax.

Yet gradually the necessity for some changes in the opposite direction was making itself felt, and the feeling in favour of reform was strengthened by the persistent advocacy of the Commissioner of Revenue, Mr. Wells. In 1870 the first step was taken, but the reductions then made were confined almost entirely to the non-protected commodities. That is to say, the duties on such revenue articles

¹ Taussig, pp. 220–1.

as tea, coffee, cocoa, sugar, spices, and wines were lowered ; there was also an addition to the free list of 130 articles, chiefly raw materials and foodstuffs.¹ The only really protective duty reduced was that on pig-iron, by about 22 per cent., and, as we have seen, some duties on flax, marble, nickel, and steel rails were increased. The net effect was a partial mitigation of the tariff, but an increase of the financial dependence of the Federal Government on the strictly protective duties as a source of revenue. The feeling in favour of tariff reform steadily increased, especially amongst the farmers, who were dissatisfied with the manner in which Congress seemed to regard only the interests of the manufacturers, and were forming in the West the political association of the "Patrons of Husbandry," or "Grangers." The movement was aided by the condition of the finances ; the Exchequer revenue from customs rose from about 41 million pounds in 1869-70 to over 45 millions in 1871-2, and the surplus revenue exceeded the amount required for the Sinking Fund. The Protectionists in Congress came to the conclusion that it was desirable to give way to some extent, and they resolved to continue the policy of 1870. They accepted a Bill introduced in the Senate in 1872, which made a reduction of 10 per cent. on cotton, wool, woollens, metals, paper, glass, and leather manufactures,² and also lowered the duties

¹ Stanwood, ii. p. 173.

² A method known as the "horizontal" reduction of duties.

on coal and steel. But they added to this a reduction of the customs and excises on whisky and tobacco, and the abolition of the duties on tea and coffee.¹ Whilst apparently a concession to Free Trade, the new Act really strengthened the position of Protection; its authors had gratified the general desire for a reduction of taxation, but they had done this particularly in regard to internal duties and what may be called "breakfast-table taxes"; and consequently, as in 1870, they had made the country still more dependent for Federal revenue upon the purely protective duties. They believed quite correctly that should it become necessary to raise more revenue, it would be easier for them to increase the protective duties than for the Free Traders to re-establish revenue taxes.² The accuracy of their calculations was soon to be proved. In 1873 there were grave commercial difficulties in the United States—part of the almost universal crisis of that year.³ Imports, which had risen

¹ Mayo-Smith and Seligman, i 19. (Cf. Taussig, pp. 184-9.)

² "The removal of the tea and coffee duties in 1872 served to fix for a long time the character of our legislation on the revenue articles of which they are the type. Step by step, in the various Tariff Acts passed since the war, all the non-protective duties have been swept away. By far the most important recent legislation in this direction was the removal of the duties on sugar in the Act of 1890, a change which, like the removal of the tea and coffee duties in 1872, emphasised the determination of the Protectionists to give up the simplest and surest sources of revenue rather than yield an abatement of the protective duties" (Taussig, pp. 188-9).

³ "In the United States the phenomena antecedent to the crisis were enumerated at the time to be, 'a rise of prices, great prosperity, large profits, high wages, and strikes for higher; large importations, a railway mania, expanded credit, over-trading, over-building, and high

rapidly from 1870 onwards, fell quickly, and so did the customs revenue in consequence. The following table gives the figures of American foreign trade from 1870 to 1875.¹ It must be remembered that in 1872 and 1873 prices were much inflated :

IMPORTS AND EXPORTS OF MERCHANDISE, 1870-6.

| Years ended June 30. | Imports for Home Consumption. | | Exports of United States Produce. | |
|-------------------------|-------------------------------|---|-----------------------------------|---|
| | Total. | Manufactured and Partly Manufactured Goods. | Total. | Manufactured and Partly Manufactured Goods. |
| | Million £. | Million £. | Million £. | Million £. |
| 1870 | 88.8 | 47.4 | 78.5 | 14.6 |
| 1871 | 104.2 | 57.4 | 89.3 | 18.6 |
| 1872 | 116.8 | 67.8 | 89.3 | 18.0 |
| 1873 | 138.2 | 68.5 | 105.2 | 21.0 |
| 1874 | 118.2 | 55.1 | 118.6 | 22.3 |
| 1875 | 109.6 | 50.3 | 104.2 | 21.2 |

The fall in the customs revenue gave the Republicans their opportunity,³ and their action was hastened by the fact that their long tenure of absolute power was coming to an end. The country had been growing more and more dis-

living.' The crisis began on the 17th of September, 1873, by the failure of a comparatively unimportant railway company. By the 29th twenty banking houses failed" (Wells, *Recent Industrial Changes*, p. 5).

¹ *British and Foreign Trade and Industry*, 1909, p. 64. It was not until 1868 that the American returns of foreign trade were put on a really satisfactory basis, as a result of the efforts of Mr. Wells and General Walker, the well-known American economist. See Worthington Ford's article on "Financial Tariff Comparisons" in the *Political Science Quarterly*, vol. xiii. No. 2.

³ They could point to the fact that the customs revenue, as a result of the legislation of 1872, had fallen from 45 million pounds, in 1871-2, to 34 millions in 1872-3, in spite of the increased value of imports in the latter year, and that the subsequent decline in imports had accentuated the loss of revenue.

satisfied with the unsatisfactory results of General Grant's second Presidency, and the Republicans were discredited by a number of legislative and administrative scandals.¹ It was clear that the new Congress would have a strong Democratic majority in the House of Representatives, and the Republicans resolved to make the most of the short time left to them. In February, 1875, they carried an Act which repealed the "horizontal" reduction made in 1872, and increased the duty on molasses, sugar, tobacco, and spirits. The Act passed without very great difficulty, though the President and his Secretary of the Treasury were both in favour of the re-establishment of the revenue duties on tea and coffee. The result, then, was simply a return to the high war rates with such additions as had been made in 1867, 1869, and 1870. In criticism of the proceeding it is only necessary to quote the judgment of the most recent historian, himself a strong advocate of the principle of Protection. Of the Republicans he writes: "When they were forced to give up the control of the lower House of Congress, and thus to surrender the power to initiate revenue legislation, they signalled their last day of unlimited authority by restoring the duties levied for purposes of protection to the giddy height they had attained when war's terrible greed of money insured a favourable response to every request manufacturers might make for higher rates. . . .

¹ Wilson, pp. 281-3.

As a political move the passage of the Act seems ill-judged. . . . It divided men into two parties of extremists, at a time when moderate counsels would have produced a reasonable tariff system that might have stood unchanged for several years. At almost every succeeding period of Congressional or Presidential election until 1896 the tariff was an issue in the canvass, to the great disturbance and distress of business, and during the short period of fourteen years, from 1883 to 1897, there were four complete revisions of the tariff. It would not be fair to lay all the uncertainty and anxiety which the agitation produced to the charge of the Republicans in the forty-second Congress. But it is certain that they had more regard for the interests of the moment than a statesmanlike foresight of the consequences of their eager grasp at a vanishing opportunity."¹

¹ Stanwood, ii. p. 191.

CHAPTER V

POLITICAL PARTIES AND THE TARIFF—ECONOMIC PROGRESS OF THE UNITED STATES TO 1890

THE Act of 1875 was followed by a lull in tariff legislation which lasted, in spite of one or two attempts at renewed activity, for eight years. Towards the end of that period the country had recovered from the acute commercial depression which had followed the disasters of 1873; the Government found itself able to resume specie payments in 1879; the Southern States were rapidly adjusting themselves to their new economic conditions; manufactures had greatly increased, if not so rapidly as during the war period, yet to an extent altogether satisfactory when the retarding effect of the commercial disorders is taken into account.¹ After some years of quietude, there was a marked

¹ The census estimates of the value of the manufactured products of the United States are: 1860, 1,885 million dollars; 1870, 4,332 million dollars; 1880, 5,369 million dollars. It should be noted, however, that the increase between 1860 and 1870 was somewhat less, and the increase between 1870 and 1880 somewhat more, than appears from these figures; since the valuation was based in 1860 and 1880 on a gold currency, and in 1870 on a very unsatisfactory paper currency. The estimates themselves are by no means complete, but they are fairly indicative of the progress made.

revival of foreign trade; there was a great advance of exports in 1880 and 1881 (the advance being chiefly in agricultural produce, partly as a result of the extension of the trans-continental railway system of the United States); whilst imports made a great upward bound in the same years and in 1882. The increase of customs revenue gave the Treasury a surplus in 1881. The movement is shown in the following table:¹

| Years ended June 30. | Imports for Home Consumption. | | Exports of United States Produce. | | |
|-------------------------|----------------------------------|---|--------------------------------------|--------------------------|---|
| | Total. | Manufactured and Partly Manufactured Goods. | Total. | Agricultural Produce. | Manufactured and Partly Manufactured Goods. |
| | Million £. | Million £. | Million £. | Million £. | Million £. |
| 1876 | 96·8 | 41·0 | 109·5 | 95·0 | 22·1 |
| 1877 | 91·6 | 36·3 | 122·8 | 95·8 | 30·0 |
| 1878 | 91·3 | 35·7 | 141·8 | 111·7 | 29·0 |
| 1879 | 91·5 | 37·5 | 145·5 | 113·8 | 27·8 |
| 1880 | 130·7 | 64·0 | 171·7 | 142·9 | 25·4 |
| 1881 | 135·5 | 60·7 | 184·2 | 152·2 | 28·2 |
| 1882 | 149·2 | 70·3 | 152·8 | 115·0 | 33·7 |

The Democratic party had persistently advocated a reduction of the customs duties, and the establishment of a tariff for revenue purposes only; and now that in 1880 and 1881, with the rise of the customs revenue from about 45 million pounds in 1878-9 to over 80 millions in 1879-80, the Treasury found itself again in possession of a surplus,² it seemed

¹ *British and Foreign Trade and Industry*, 1909, pp. 64-5, and Mayo-Smith and Seligman, p. 48. There is some small amount of duplication in the fifth and sixth columns of the table.

² The debt was reduced from 2,046 million dollars in 1870 to 1,723 millions in 1880; in the two years 1878-80 the reduction was 100 millions.

to the Republicans, who still retained power, but saw signs of their approaching fall,¹ desirable to make some concessions to the popular feeling in favour of a reduction of Federal revenue and a mitigation of the high protective duties. Accordingly, in 1882 a commission was appointed "to take into consideration and to thoroughly investigate all the various questions relating to the agricultural, commercial, mercantile, manufacturing, mining, and industrial interests of the United States, so far as the same may be necessary to the establishment of a judicious tariff, or a revision of the existing tariff, upon a scale of justice to all interests."² The composition of the commission did not encourage any hope of appreciable reform in the direction of Free Trade;³ its members, or some of them at least, seem to have interpreted their instructions to mean simply that they were to make such modifications of the existing duties as would be likely to remove some part of the public hostility without in fact affecting the protective character of the tariff. The commission, nevertheless, admitted in its report "that a sub-

¹ They had lost at Congressional elections, and they had very nearly lost the Presidential election of 1876. In 1880 they had done better, but it now seemed likely that they would lose their hold on the Executive Government.

² Quoted in Stanwood, ii. p. 203.

³ "Four of the commissioners were themselves personally or officially interested in industries classed as protected. All the commissioners, without exception, were favourable to the principle of Protection" (Stanwood, ii. p. 204). The chairman was the Secretary of the most energetic protectionist association in the country, the National Association of Wool Manufacturers.

stantial reduction of tariff duties was demanded, not by a mere indiscriminate popular clamour, but by the best conservative opinion of the country, including that which has in former times been most strenuous for the preservation of our national industrial defences.”¹ By the end of the year the committee felt itself able to report, and legislation was commenced on the lines which it indicated. The new Tariff Act became law in March, 1883, after the House of Representatives, with its strong protectionist majority (including a number of Democrats), had made considerable alterations in the Bill as passed by the Senate, where it was first introduced.² It was therefore not approved by all the Republicans, but those who disapproved would not vote against it.

In a number of instances the rates of duty were reduced. In the case of raw wool, hitherto subject to a combined specific and *ad valorem* duty, the *ad valorem* portion was remitted—the effects being a real reduction on carpet wools, which were not produced in the United States at all; a small reduction of little importance on the better kinds of ordinary wools; and the maintenance of a practically prohibitive rate on the inferior grades. As a consequence of this reduction of duty on the imported raw material, the “compensating” specific part of the duty on woollen goods was likewise

¹ Quoted in Dewey, p. 421.

² The passage of the Bill was accompanied, and promoted, by the usual complicated parliamentary manœuvres and manipulation of rules (Stanwood, ii. pp. 207–18).

diminished—somewhat more than proportionately ; but in the case of the finer qualities of goods this remission was counterbalanced by an increase of the *ad valorem* rates. On the cheap kinds of cotton goods the decrease of duty was 50 per cent., but these were hardly imported into the United States at all, and were actually exported on a considerable scale ; silks were largely imported, so the *ad valorem* rate was lowered only some 16 per cent. On pig-iron the rate was lowered very slightly, from \$7 to \$6.72 a ton ; on steel rails, on the other hand, the reduction was 40 per cent. (from \$28 to \$17 a ton), though a fall of prices between 1881 and 1887 deprived this change of much of its force. Other reductions of varying (but generally slight) degrees of importance were on marble, nickel, and copper ;¹ a reduction was made for barley at the request of the brewers.

None of these changes were of sufficient value to secure a favourable reception of the new tariff by the advocates of freer trade, whilst other alterations were of a nature to arouse their hostility. There were a number of distinct advances in the customs rates, and, as was perhaps to be expected, the chief advantage was reaped by the woollen manufacturers. Thus the rate of duty on dress goods, which have never been manufactured in any large proportion in the United States, was increased, in spite of the fact that the tax on imported wool was at the same time lowered ; the *ad valorem* duty on the higher-

¹ Taussig, pp. 239-49.

valued kinds of fine cloths was also raised. On the best grades of cotton goods, such as embroideries and hosiery, there was a rise of about 14 per cent. The rates of duty on various steel manufactures (chiefly machinery parts, such as rods and shafts) were also increased, as were those on quicksilver and a number of manufactures of brass, pewter, tin, and lead. The rate of duty on iron-ore was advanced from 20 per cent. *ad valorem* to 75 cents a ton (equivalent to about 35 per cent.).¹

The changes were then, on the whole, of no great effect in either direction.² The average duties collected were in 1882-3 42·45 per cent. of the value of imported goods, and in 1883-4 41·61 per cent. Practically nothing was changed, and so far the protectionist party might count the new tariff as yet another addition to their long list of victories. Some attempts were made in 1884 and 1886 to renew the tariff discussion, and reduce duties, but without success, partly owing to the fact that people were tiring of the constant changes, and partly because the Democratic party was by no means unanimous on the subject. A revolt of some of its members defeated the Morrison Bill of

¹ Taussig, pp. 233-8. "As a rule duties were advanced on protected articles of which importations continued in considerable volume. The advance was by no means universal . . . but it was made in so large a number of important cases as to give the Act a distinctly protectionist flavour."

² "Although the changes in the rates of customs duties were numerous, few of them were large enough to work a perceptible alteration in the conditions under which either commerce or manufacturing industry was prosecuted" (Stanwood, ii. p. 218).

1884, which proposed an average all-round reduction of 20 per cent., with the rates of duty of the Morrill Tariff of 1861 as the maximum. Consequently, in spite of the fact that the Democratic victory in the election of President Cleveland in November, 1884, gave that party for the first time since Buchanan left office, in 1861, the control of the Executive Government, nothing was done during its four years of power. But in December, 1887, the President, in his annual message to Congress, declared uncompromisingly in favour of a very considerable reduction of duties. After asserting that an increase in the cost to the home consumer of all commodities, wherever produced, was a result of Protection, the President continued: "It is not proposed to entirely relieve the country of this taxation. It must be extensively continued as the source of the Government's income; and in a readjustment of our tariff the interests of American labour engaged in manufacture should be carefully considered, as well as the preservation of our manufactures. It may be called Protection, or by any other name, but relief from the hardships and dangers of our present tariff laws should be devised with especial precaution against imperilling the existence of our manufacturing interests. But this existence should not mean a condition which, without regard to the public welfare as a national exigency, must always insure the realisation of immense profits instead of moderately profitable returns. . . . We are in the midst of centennial

celebrations, and with becoming pride we rejoice in American skill and ingenuity, in American energy and enterprise, and in the wonderful natural advantages and resources developed by a century's national growth. Yet when an attempt is made to justify a scheme which permits a tax to be laid upon every consumer in the land for the benefit of our manufacturers, quite beyond a reasonable demand for governmental regard, it suits the purposes of advocacy to call our manufactures infant industries, still needing the highest and greatest degree of favour and fostering care that can be wrung from Federal legislation." Even at this early stage of their development the President called attention to the industrial trusts, and their probable effect on home prices when foreign competition should be eliminated ; and he ended by declaring that " it is a *condition* which confronts us, not a theory. . . . The simple and plain duty which we owe the people is to reduce taxation to the necessary expenses of an economical operation of the Government. . . . These things can and should be done with safety to all our industries, without danger to the opportunity for remunerative labour which our working men need, and with benefit to them and all our people, by cheapening their means of subsistence and increasing the measure of their comforts."¹

The message established a distinct line of division between political parties ; it committed the Democrats finally to Free Trade, and therefore identified

¹ *Congressional Record*, vol. xix. part i. pp. 10-11.

the Republicans with Protection; and it provided a clear and definite issue for the Presidential election of November, 1888.¹ The two rival policies to be placed before the country were exemplified by two Bills—one (the “Mills Bill”) introduced and passed in the House of Representatives by a substantial Democratic majority, and the other brought forward in the Senate by the Republicans. The former proposed to abolish the duties on a large number of raw or semi-manufactured materials of industry, such as wool, flax, hemp, jute, tin plates, and on other articles, as salt and soap; and to reduce the rates of duty on woollens, cotton goods, iron, earthenware, and sugar; it also substituted *ad valorem* for specific duties in many cases. It was estimated that the result would be a loss to the revenue of about fifty million dollars, nearly one-quarter of this arising from the proposed reduction of the rates in respect of woollens, and more than one-fifth from the reductions in regard to sugar and molasses.² On the other side, the Senate Bill made some reductions and readjustments, but in a large number of instances increased the duties. Neither Bill passed, or was expected to pass; but the country had a definite choice offered to it, and the elections of November, 1888, gave a narrow

¹ “From that time on, the tariff question became the chief line of division between the two great political parties” (Mayo-Smith and Seligman, p. 23). It had the effect of “making this question more distinctly a party matter than it had been at any time since the Civil War” (Taussig, p. 253).

² Details in Mayo-Smith and Seligman, pp. 24-5.

victory to the Republicans by the return of President Harrison; and in spite of some disturbing influences, they were entitled to consider this as a decision in their favour on the tariff question. In their election "platform" they had declared that they would "effect all needed reduction of the national revenue by repealing the taxes upon tobacco, which are an annoyance and burden to agriculture, and the tax upon spirits used in the arts and for mechanical purposes, and by such revision of the tariff laws as will tend to check imports of such articles as are produced by our people, the production of which gives employment for labour; and release from import duties those articles of foreign production, except luxuries, the like of which cannot be produced at home. If there shall still remain a larger revenue than is requisite for the wants of the Government, we favour the entire repeal of internal taxes rather than the surrender of any part of our protective system, at the joint behest of the whisky trust and the agents of foreign manufacturers."¹ They now resolved to make full use of their new lease of power, and the result appeared in the McKinley Tariff of 1890.

It was not possible for them to argue that the country required more Protection—the proposed new tariff was the outcome rather of political events than of the economic condition of the United States. By 1890 industry and commerce had recovered from the depression and become

¹ Quoted in Stanwood, ii. p. 238.

free from the difficulties which had more or less hampered them since about 1873, and had grown acute for the last time in 1885-7; and the country was now making a rapid advance on the upward path. Population had increased from $38\frac{1}{2}$ millions in 1870 to $62\frac{1}{2}$ millions in 1890; and the development was particularly marked in the great agricultural states of the Middle and North-West. The total production of grain was estimated in 1870 at 761 million bushels (it had gone back somewhat during the Civil War period), in 1880 at 1,755 millions, and in 1890 at 2,122 millions.¹ Railways had advanced with extraordinary rapidity, particularly in the decade 1880-90; in 1870 there were 60,000 miles in the United States; in 1880, 93,000; and in 1890, 164,000. With this development there had come a marked cheapening of the cost of transport; the charge for the carriage of a bushel of wheat from Chicago to New York fell from $30\frac{1}{2}$ cents in 1868 to $14\frac{1}{2}$ cents (or rather less than one-half) in 1888.² These changes had greatly stimulated agriculture, and rendered possible the growth of the export trade in agricultural products, which from 1875 to 1890 averaged about 75 per cent. of the total exports of the United States.³ Next to grain, the most important product so exported was cotton; the output of that raw material fluctuates considerably, but it rose from an average of 3,325,000 bales in 1869-73 to an

¹ *Twelfth Census*, vol. vi. p. 23.

² Conner, p. 47.

³ Mayo-Smith and Seligman, p. 48.

average of 6,553,000 bales in 1885-9, whilst the export advanced in about the same proportion—from 1,040 million pounds in the former to 2,015 millions in the latter period.¹ The manufacturing industries were increasing with equal or even greater rapidity; the value of their products was estimated at the census of 1870 at 4,232 million dollars, and in 1890 at 9,372 millions, and the increase was even greater than it appears in these figures, since the former estimate was based on a depreciated paper currency, and the latter on the gold currency.² The development of industry in the United States during the twenty years from 1870 to 1889 is indicated in the following table:³

| | Annual Average. | | | |
|--|------------------------|-----------------------|-----------------------|------------------------|
| | 1870-1874. | 1875-1879. | 1880-1884. | 1885-1889. |
| Production of coal | Million Tons. 43·10 | Million Tons. 52·2 | Million Tons. 88·7 | Million Tons. 115·3 |
| Production of pig-iron ... | 2·20 | 2·2 | 4·2 | 6·0 |
| Production of crude steel ... | 0·14 | 0·6 | 1·6 | 2·8 |
| Number of cotton spindles employed ... | 8,217,000 | 10,381,000 | 12,087,000 | 13,560,000 |
| Consumption of raw cotton ... | Million Cwts. 5·0 | Million Cwts. 6·2 | Million Cwts. 8·3 | Million Cwts. 10·0 |
| Consumption of raw (sheep and lambs') wool ... | Million Lbs. 230·5 | Million Lbs. 240·5 | Million Lbs. 343·1 | Million Lbs. 391·6 |
| Shipping built and added to register | Tons. 218,273 | Tons. 190,453 | Tons. 206,811 | Tons. 154,118 |

¹ Mayo-Smith and Seligman, p. 5.

² *Twelfth Census*, vii. pp. xlvii. seq.

³ The figures are taken from *British and Foreign Trade and Industry*, 1909, pp. 120-1 and 157-171.

The industrial progress was no longer confined to the Northern and Middle States; the South also was beginning to have its share, especially in the production of cotton goods. The one unsatisfactory feature was the condition of American shipping and shipbuilding; between 1870 and 1890 the tonnage registered for over-sea trade declined from 1,517,000 to 947,000 tons,¹ though there was an increase in coasting, river and lake shipping from 2,678,000 tons in 1870 to 3,478,000 in 1890. In spite of various Navigation Acts, and partial remissions of duty on goods borne in American vessels, the percentage of the United States foreign trade carried in native vessels had fallen from 35·6 in 1870 to 12·3 in 1890 (in 1860 it had been as much as 66·5 per cent).²

The statistics of the foreign trade of the United States up to 1882 have already been given; the following table carries them up to the year 1890:³

| Years ended June 30. | Imports for Home Consumption. | | Exports. | |
|-------------------------|----------------------------------|--|------------|--|
| | Total. | Manufactured and Partly Manufactured Goods. | Total. | Manufactured and Partly Manufactured Goods. |
| | Million £. | Million £. | Million £. | Million £. |
| 1883 | 146·0 | 71·2 | 167·5 | 33·4 |
| 1884 | 139·1 | 63·0 | 151·0 | 32·5 |
| 1885 | 120·7 | 54·3 | 151·4 | 31·3 |
| 1886 | 130·3 | 59·7 | 138·7 | 30·3 |
| 1887 | 142·4 | 67·3 | 146·5 | 31·1 |
| 1888 | 148·4 | 69·3 | 142·5 | 32·1 |
| 1889 | 154·5 | 68·2 | 152·1 | 34·6 |
| 1890 | 161·8 | 71·6 | 176·1 | 37·3 |

¹ It reached 1,629,000 tons in 1878. ² Mayo-Smith and Seligman, p. 57.

³ *British and Foreign Trade and Industry*, 1909, pp. 64-5.

CHAPTER VI

THE NEW THEORY OF PROTECTION AND THE McKINLEY TARIFF

It was clearly difficult for the advocates of Protection to urge the "infant industries" doctrine any longer (save in one or two special cases). Perfectly valid as this argument may have been in the early days of the industrial history of the United States, it could not now serve the Republicans as their avowed principle of action, and they found it necessary to provide themselves with another and more defensible theoretical basis for the practice of Protection. They therefore turned to the ideas of the home market and national self-sufficiency; their policy had, indeed, from the first been in that direction, but was now to become so more definitely. "The world's progress is now dependent upon the development of internal resources, and not of external trade. We need a systematic development of all those opportunities for labour with which each country has been endowed by nature. We must make a better use of all our natural resources if the world is to advance to a higher industrial state. Progress must come from the

development of large continental states, rich in natural resources.”¹ Protection is to be no mere temporary expedient; it becomes “a consistent endeavour to keep society dynamic and progressive. Protection also ceases to be an isolated exception to the general passive policy which it has been popular to advocate, and becomes a part of a fixed national policy to increase the value of labour with the increase of productive power, and to aid in the spread of knowledge and skill and in the adjustment of a people to its environment.”² This by itself was somewhat too subtle an argument (at least in such a form) for popular use, but it was interpreted by the Republicans at the election of 1888 as implying the necessity for the protection of the highly-paid American workman against the competition of the ill-paid European labour. This was to be done, not by the exclusion of European commodities, but by the imposition of duties which would counterbalance the disadvantage of the greater cost of production in America, and also give a moderate protection. It would thus protect labour, for it “cut off the privilege of the foreigner to come in with cheaper wares and to gain a foothold in the market, if perchance he had gone forward at a little more rapid pace

¹ Patten, *Economic Basis of Protection* (first published in 1890), 2nd ed., p. 15. A sympathetic exposition of the theories of the less scientific Protectionists in the United States will be found in Maurice Low, *Protection in the United States*. For a criticism of Patten, see Rabbeno, *The American Commercial Policy* (Essay III.).

² Patten, pp. 7-8.

than the American in adapting his manufacture to new conditions. It relieved the home manufacturer from the necessity of cutting down wages, supposing that he could have reduced them; and in this respect the tariff was a boon to the working man."¹ This wages argument was not new—it had first made its appearance in the thirties, and had been discussed slightly in the debates on the tariff proposals of 1842 and 1846; but it appears not to have become prominent until the eighties. Even the Democrats felt it necessary to take somewhat the same line. In 1884 they had been careful in their "platform," whilst asserting that reform was urgently required, to add that "the necessary reduction in taxation can and must be effected without depriving American labour of the ability

¹ Stanwood, ii. p. 256. The following extracts (quoted by Low, p. 54) illustrate the attitude and reasoning of Mr. McKinley: "The revenue tariff accomplishes but a single purpose—that of raising revenue; it has no other mission, while a protective tariff accomplishes this and more—it brings revenue to the American Treasury, and discriminates in favour of the American citizen. . . . The protective tariff invites the [products of] foreign labour and foreign capital which are necessary to the wants of the people, and which we cannot produce in the United States, to occupy our markets and go untaxed to the people, but insists that every foreign product, the like of which is produced at home, or can be produced successfully in quantities capable of supplying the domestic consumption, shall, whenever necessary to maintain suitable rewards to our labour, bear a duty which shall not be so high as to prohibit importations, but at such a rate as will produce the necessary revenues, and at the same time not destroy, but encourage, American production" (*Protection and Reciprocity Illustrated*, 1892). "The chief obstruction in the way of a revenue tariff is the wages paid American workmen, and any return to that policy involves a reduction of the cost of labour. We cannot afford to have cheap labour in the United States" (Speech at Atlanta, 1888).

to compete successfully with foreign labour, and without imposing lower rates of duty than will be ample to cover any increased cost of production which may exist in consequence of the higher rate of wages prevailing in this country.”¹ And in 1888, when their advocacy of greater freedom of trade was much more vigorous, they retained the proviso that the revision of duties must be “with due allowance for the difference between the wages of American and foreign labour.” But their attitude was not satisfactory to the electors; the Republicans pushed the argument for all, and more than all, that it was worth—without any regard to the problem of the relative efficiency in the long run of well-paid and ill-paid labour, or to the relation of wages to the cost of living—and “the campaign of 1888 was won on the ‘pauper labour’ argument.”²

The new ‘Tariff’ Bill of the Republicans was introduced in April, 1890, by Mr. McKinley, the Chairman of the Committee on Ways and Means; it received the Presidential approval on October 1st, and came into force five days later. Its most novel feature was the extension of Protection to agriculture—a policy which was inspired largely by the desire on the part of the Republicans to allay the dissatisfaction of the farmers, who believed that

¹ Quoted in Stanwood, ii. p. 222. It is noteworthy that in 1884 the Democrats, like the Free Traders of fifty years before, asserted openly that “taxes collected at the custom house” must continue to be the chief source of Federal revenue.

² Mayo-Smith and Seligman, p. 23.

they were being exploited in the interests of the manufacturers, and to detach them, if possible, from the Democratic and Free Trade party. Its economic defence was found in the increase of the imports of agricultural produce, the value of which amounted to over 53 million pounds, out of total imports valued at about 155 million pounds in the year ending June 30, 1889, and the growing competition of Canada. So the duty on barley was increased from 10 cents to 30 cents a bushel; on oats from 10 to 15 cents; on wheat from 20 to 25 cents; on potatoes from 15 to 25 cents; on hay from \$2 to \$4 a ton; whilst eggs and apples, hitherto free, were subjected to duties of 5 cents a dozen and 25 per cent. *ad valorem* respectively.

The duty on tobacco suitable for cigar wrappers, which could be grown in the United States only in Connecticut and was largely imported from Sumatra, was increased from 75 cents to \$2 a pound, with the additional important proviso that if any portion, no matter how small, of any bale of tobacco imported should be suitable for wrapping, the whole should pay the rate of \$2 a pound.¹ Other increases were on flax and hemp, neither of which were grown in good qualities in the United States.² And finally, the duties on wool

¹ Mayo-Smith and Seligman, p. 32.

² "It may be said without qualification that the purpose of the increase of duties on agricultural products was political, and that the object was accomplished. The farmers were taken into the Protection partnership" (Stanwood, ii. p. 266).

were raised considerably; the rate on clothing wool was indeed advanced only from 10 to 11 cents a pound, and on combing wool only from 10 to 12 cents, but on carpet wool the change was much greater. This is wool of a coarse kind which was not grown in the United States; it was now made subject to a higher duty because it was believed that better qualities were imported as carpet wool, and therefore paid a smaller duty than they would otherwise do — though no satisfactory evidence of this was produced; an *ad valorem* rate, varying from 32 per cent. to 50 per cent., was now imposed on carpet wool instead of the former specific rate, and represented in fact a substantial increase.¹

Naturally, the manufacturers of woollen goods of all kinds strongly resisted the concessions made to the growers of wool, and could be pacified only by more consideration for themselves; and, in fact, the woollens schedules showed the most vigorous application of the protective policy. It is true that in the case of the cheapest kinds of woollen goods there was little, if any, increase, because whilst the *ad valorem* part of the duty was slightly raised, the specific “compensating” part was commonly reduced; but on the better qualities the increase was large, and at the same time the rates were greatly complicated by new classifications and further applications of the principle of the sliding-

¹ Taussig, pp. 256-9.

scale.¹ To take only a few instances of an increase—the rates of duty on ready-made clothing were raised from 40 cents a pound + 35 per cent. *ad valorem* to 49½ cents + 60 per cent., and on Brussels carpets from 30 cents the square yard + 30 per cent. *ad valorem* to 44 cents + 40 per cent., whilst in the case of dress goods the advance made them subject to a rate amounting to nearly 100 per cent.² The same policy was pursued with other textiles; there were remissions of duties on the cheaper qualities of cotton, linen, and silk goods, and radical increases on all the better kinds. Some other advances, not on textiles, may also be conveniently noted here—on fine plate-glass from 40–45 per cent. to 60 per cent. *ad valorem*, and on cigars (to compensate the manufacturers for the

¹ The following table gives a simple illustration of this in the case of woollen cloths (Taussig, p. 260):

| 1883. | 1890. |
|--|--|
| (1) If worth 80 cents or less per lb., 35 cents per lb. + 35 per cent. | (1) If worth 30 cents or less per lb., 33 cents per lb. + 40 per cent. |
| (2) If worth more than 80 cents per lb., 35 cents per lb. + 40 per cent. | (2) If worth between 30 cents and 40 cents per lb., 38½ cents per lb. + 40 per cent. |
| | (3) If worth more than 40 cents per lb., 44 cents per lb. + 50 per cent. |

² Yet in spite of these high duties, the tariff on wool has greatly hampered the industry in the United States. “The effect of this duty is perceptible, not only upon the price of home-grown wool, which is enhanced by some considerable part of the duty, but also in its curtailment of importations of the most desirable varieties of Australian and South American fleeces. For this reason, among others—and there are several others of importance—there has thus far been no serious attempts to develop an American export trade in woollen goods. The one possible exception to this rule is in the case of carpets” (S. N. D. North, in *Annals of the American Academy*, vol. xxiii. No. 1, January, 1904).

change in the tobacco duties) from \$2.50 a pound + 25 per cent. to \$4.50 + 25 per cent.

In the case of iron and steel goods, which had once furnished the friends of Protection with their most effective arguments, the situation was altogether different. The production of pig-iron and crude steel in the United States exceeded that in the United Kingdom in 1890 for the first time, and the United States consumption of coal had reached nearly to the British figure (it first exceeded it in 1891).¹ The American manufacturers were in control of the home market; they no longer feared foreign competition, and were quite willing to allow some reductions which probably would benefit only those consumers on the Eastern coast to whom transport by water from Europe was as cheap as, or cheaper than, transport by rail from distant parts of the United States. The duty on steel rails was lowered to \$13.44 a ton,² and there were decreases on the inferior qualities of boiler iron and steel ingots. But, on the other hand, the manufacturers in the East, especially near the coast, could secure no remissions on pig-iron or iron ore, which they obtained largely from Cuba and Spain. On a number of other metal manufactures (brass, copper, lead) there were reductions. A concession was made to the shipping industry by extensive grants of drawbacks on all materials "which may be necessary for the construction and equipment of vessels

¹ *British and Foreign Trade and Industry*, 1909, pp. 169, 171, 172.

² "It left the duty still at a prohibitory rate" (Taussig, p. 272).

built in the United States for foreign account and ownership, or for the purpose of being employed in the foreign trade, including the trade between the Atlantic and Pacific ports of the United States.”¹ The one great change was in the case of tin plates, which were scarcely manufactured at all in the United States, but were imported in enormous quantities (with an average value of $4\frac{1}{4}$ million pounds in the fiscal years 1887-8 to 1889-90), owing in part to the growth of the canning industry. Since 1873 attempts had been made to develop the manufacture in America, but without success, for the competition from South Wales was too strong. A determined effort was now made by increasing the rate of duty from 1 cent to $2\frac{1}{5}$ cents a pound (about 70 per cent. *ad valorem*), with the proviso that after October, 1897, tin plates should be admitted free unless in any one year the production of tin plates in the United States should equal “one-third the amount of such plates imported and entered for consumption during any fiscal year after the passage of this Act.” The idea seems to have been that unless there was evident indication, by the end of six years, that the new industry which it was proposed to try to create had really established itself, the attempt should be given up; the proviso was a concession to the consumers of tin plates, who were strongly opposed to the proposed increase of duty, and anticipated serious difficulties for the various canning in-

¹ Section 8.

dustries; they were also met to some extent by the grant of a drawback, equivalent to 99 per cent. of the original duty, on tin-plate re-exported in the form of tinware utilised for canning purposes (this as part of a general system of drawbacks). There can be no question that the higher protection did enable the manufacture to get a start and obtain a firm footing; in the four years 1887-90 the average value of the imports of tin plates from Great Britain into the United States was £4,279,000, and the quantity manufactured there practically nil; in the four years 1898-1901 the average value of imports from Great Britain was only £807,000, and the average production in the United States was 347,000 tons.¹

The most revolutionary change made by the new Act had reference to sugar, on which the duty hitherto in force varied from 1½ cents to 3½ cents per pound—a fairly high rate. The revenue from sugar was very large; in the five fiscal years 1885-6 to 1889-90 it averaged rather more than 11 million pounds a year. There had been a number of suggestions for the reduction of duty, and there was even a Bill introduced by the Republicans of the Senate, prior to the election of 1888, which proposed a remission of about 50 per cent. The McKinley Tariff abolished the duty on raw sugar altogether, but made refined sugar subject to a rate of ½ cent per pound. But in order to help the producers of sugar in the United States, chiefly

¹ *British and Foreign Trade and Industry*, 1903, p. 132.

in Louisiana, the Federal Government undertook to pay a bounty amounting to 2 cents per pound on the best qualities for fourteen years, until the end of June, 1905. At the same time a small surtax was imposed on all bounty-fed sugar coming from other countries. From the Treasury's standpoint the effect of this change was to reduce the customs revenue from sugar from $11\frac{1}{4}$ million pounds in 1889-90 to about £16,000 in 1891-92, whilst at the same time the amount to be paid in bounties was over $1\frac{1}{2}$ million pounds in 1891-92, and over $2\frac{1}{2}$ million pounds in 1893-94.

One other characteristic feature of the McKinley Act should be noticed, and that is the increased elaborateness of the classification adopted and the use which was made of detailed sliding-scales with minimum values, instead of simple *ad valorem* duties. Illustrations of the system have already been given from time to time; its further application greatly complicated the Tariff, as the following example shows. The Act of 1883 contented itself with the simple statement that "penknives, pocket-knives of all kinds, and razors shall pay 50 per cent. *ad valorem*," but in the Act of 1890 that direction had grown into the following elaborate statement as to the duties to be levied:

"Penknives or pocketknives of all kinds, or parts thereof, and erasers, or parts thereof, wholly or partly manufactured, valued at not more than fifty cents per dozen, twelve cents per dozen; valued at more than fifty cents per dozen and not exceeding one dollar and fifty cents per dozen, fifty cents per dozen; valued at more than one dollar and fifty cents per dozen and not exceeding three dollars per dozen, one dollar per dozen; valued at more than three

dollars per dozen, two dollars per dozen; and in addition thereto on all the above, fifty per centum *ad valorem*. Razors and razor blades, finished or unfinished, valued at less than four dollars per dozen, one dollar and seventy-five cents per dozen; and in addition thereto on all the above razors and razor blades, thirty per centum *ad valorem*.”¹

Not only does this method of levying duties greatly increase the difficulty of customs administration, but it offers a very strong temptation to under-valuation on the part of importers.

The complications of the tariff, and some defects in the existing organisation, rendered a rearrangement of the customs organisation desirable, and the task was accomplished by the Customs Administrative Act of June, 1890, which established the system still in force. Under that Act all goods imported must be accompanied by an invoice containing a declaration by the purchaser or manufacturer with “a full statement of the time when, the place where, and the person from whom the purchase was made, and the actual cost thereof and of all charges thereon”; and such declaration must have been produced to, and countersigned by, the United States Consul or commercial agent

¹ The following table shows the effect of this change in the amount of the duty (Worthington Ford, in *Political Science Quarterly*, vol. xiii. No. 2, p. 283):

| | | | | Actual <i>ad valorem</i> Duty. | |
|------------------|--|-----|-----|--------------------------------|-----------|
| | | | | 1883. | 1890. |
| | | | | Per Cent. | Per Cent. |
| Penknives, etc., | valued at not more than 50 cents | | | | |
| | per dozen | ... | ... | 50 | ... |
| | valued over 50 cents and not exceeding | | | | 74.06 |
| „ | \$1.50 per dozen | ... | ... | 50 | ... |
| | valued over \$1.50 and not exceeding | | | | 96.17 |
| „ | \$3 per dozen | ... | ... | 50 | ... |
| | valued over \$3 | ... | ... | | 94.74 |
| „ | | | | 50 | ... |
| | | | | | 86.95 |

dollars per dozen, two dollars per dozen; and in addition thereto on all the above, fifty per centum *ad valorem*. Razors and razor blades, finished or unfinished, valued at less than four dollars per dozen, one dollar and seventy-five cents per dozen; and in addition thereto on all the above razors and razor blades, thirty per centum *ad valorem*.”¹

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| | | | Actual <i>ad valorem</i> Duty. | |
|------------------|--|--------|--------------------------------|-----------|
| | | | 1888. | 1890. |
| | | | Per Cent. | Per Cent. |
| Penknives, etc., | valued at not more than 50 cents | | | |
| | per dozen | | 50 | 74.06 |
| .. | valued over 50 cents and not exceeding | | | |
| | \$1.50 per dozen | | 50 | 96.17 |
| .. | valued over \$1.50 and not exceeding | | | |
| | \$3 per dozen | | 50 | 94.74 |
| .. | valued over \$3 | | 50 | 86.95 |

at the place where the goods were purchased or manufactured.¹ The invoice must be sworn to by the importer; the goods are then valued by an "appraiser," and if the duty is *ad valorem* and the valuation by the appraiser exceeds the valuation on the invoice, double duty is levied on the difference. Appeal lies to a general appraiser, then to Boards of General Appraisers, and then to the Federal Courts.

This elaborate machinery is almost inseparable from any system of *ad valorem* duties, and consequently most nations have preferred the simpler method of specific duties. The main advantages of *ad valorem* duties are that the tax always bears the same relation to the value of the commodity on which it is imposed, and is perfectly intelligible even to the non-expert; the effect of specific duties, on the contrary, can only be determined by a trade specialist, and unless they are frequently changed they are apt to become much heavier or much lighter than was intended at the time of their imposition—a striking illustration of this from the early history of the German Zollverein has

¹ The value of the imports into the United States, as given in the official returns since August 1, 1890, is "the actual market value or wholesale price of such merchandise as bought and sold in usual wholesale quantities at the time of exportation to the United States in the principal markets of the country from whence imported, and in the condition in which such merchandise is there bought for exportation to the United States or consigned to the United States for sale, including the value of all cartons, cases, crates, boxes, sacks, and coverings of any kind, and all other costs, charges, and expenses incident to placing the merchandise in condition ready for shipment to the United States" (Section 19 of *Customs Administrative Act*, 1890).

already been given.¹ To prevent such occurrences the tariff must be frequently readjusted, but this involves much labour and a certain amount of uncertainty to foreign traders.² Moreover, without extreme minuteness of tariff classification, it is impossible to keep the specific duties from weighing more heavily on the cheaper than on the better qualities of goods.³ These considerations, as we have seen, induced an American Congressional committee in the thirties to declare strongly in favour of the *ad valorem* system, and, after various changes, the United States for a long period seemed resolved to use *ad valorem* rates to the fullest possible extent. Yet the fact that most protective nations have not imitated the United States in this respect suggests that there are some very strong objections to this method of levying duties. The machinery for collection has to be much more elaborate than when specific rates are employed—at every port, however small, there must be a (more or less) competent appraiser. Secondly, it is not easy to secure that the valuations at the various ports are uniform; complaints on this point were frequent in the United States at one time, and other countries which use the *ad valorem* method seem to have the same experience. Arrangements can, it is true, be made for appeals, but these usually mean much trouble to the importers. Thirdly, the temptation

¹ See p. 6.

² Most foreign tariffs, however, are for long terms of years.

³ An instance is the single British tax on tea, which is the same for all qualities.

to undervaluation is strong, and fraudulent declarations are encouraged; the elaborate precautions taken and penalties provided by the Customs Administrative Act in the United States only show how deep-seated this evil may become. On the whole, then, it appears clear that, balancing advantages and disadvantages, specific duties are the more desirable form of duty, and the example of the United States will probably never be widely followed.¹

¹ For an account of another most important part of the McKinley Tariff Act—the clauses relating to Reciprocity—see Chapter VIII.

CHAPTER VII

THE WILSON AND DINGLEY TARIFFS

THE passage of the McKinley Tariff Act was followed by an immediate and violent reaction. A month after it came into force the election for Congress took place, and resulted in a tremendous defeat for the Republican party. The reaction continued, and the Presidential campaign of November, 1892, ended in the return of the Democratic candidate, Cleveland, who represented the anti-protectionist policy. The Western States went almost solidly Democratic; and the new "farmer's party," the Populists, also detached many votes from the Republicans. The Democrats even secured a small majority in the Senate, and so for the first time since the period before the Civil War, they had complete control of the Federal Government. The causes of the change in public opinion are not very clear; the new Tariff had not been sufficiently long in force for any definite opinion to be formed as to its effects; but no one could allege that the issue had not been definitely set before the country. The Democrats in their platform for the Presidential election had declared

that it was "a fundamental principle of the Democratic party that the Federal Government has no power to impose and collect tariff duties, except for revenue purposes only," and denied that there had been any increase of prosperity under the McKinley Tariff. Their candidate himself was more moderate; in his letter of acceptance of the party nomination, Cleveland wrote: "Reform is still our purpose. Though we oppose the theory that tariff laws may be passed having for their object the granting of discriminating and unfair governmental aid to private ventures, we wage no exterminating war against any American interests. We believe a readjustment can be accomplished, in accordance with the principles we profess, without disaster or demolition. We believe that the advantages of freer raw material should be accorded to our manufacturers, and we contemplate a fair and careful distribution of necessary tariff burdens rather than the precipitation of Free Trade." The Republicans in their turn asserted that "the prosperous condition of our country is largely due to the wise revenue legislation of the Republican Congress," and claimed that the fall in the prices of manufactured commodities was in fact due to the tariff. The new President considered his large majority as a mandate for a reform of the customs tariff on the lines which he had indicated, but the hopes with which he undertook the task were doomed to disappointment. The problem was complicated by two circumstances; one being the

small and uncertain Democratic majority in the Senate, and the other the silver question. The problem which the last presents lies outside our subject; it is necessary here only to state that the Republicans had yielded in 1890 to the demand for the freer coinage of silver, and that the excessive issues of silver currency under the Silver Purchase Act of that year had produced a rapid fall in prices, and a good deal of commercial confusion. President Cleveland and his advisers thought themselves compelled to propose the repeal of the Purchase Act; they carried it after a hard struggle, but in so doing they threw confusion into the ranks of their own party, which contained a strong section in favour of "free silver." These difficulties and others weakened the Government seriously, and though it encountered comparatively little opposition in carrying its scheme for tariff reform (subsequently named the Wilson Tariff, after the Chairman of the Committee of Ways and Means) in the lower House, it was not able to overrule the sweeping amendments made by the Senate¹—amendments which gravely modified the proposals, and in some cases made them of no effect.

Nevertheless the Wilson Tariff Act did make considerable changes. The additions to the duty-free list included a number of chemicals (including mineral oils), copper and certain manufactures thereof, lumber, flax, hemp, raw wool, hides (raw

¹ As sent back by the Senate to the House of Representatives, the Bill contained 684 amendments (Stanwood, ii. p. 340).

or uncured), coffee, fresh fish, various agricultural products, and a number of other commodities. Reductions exceeding 75 per cent. of the rates of duty imposed by the McKinley Tariff were made in respect of iron in bars and blooms, and the cheaper kinds of woollen yarns and cloths; there were reductions of from 50 to 75 per cent. of the rates previously in force in respect of numerous commodities, including various chemicals, lead, zinc in sheets, a number of manufactures of iron and steel, the better qualities of woollen yarns and cloths, blankets, carpets, knitted wearing apparel, flannels, some dress goods, and certain agricultural products (including barley and hay); and there was a very lengthy list of articles on which smaller reductions were made. The new or increased duties, on the other hand, were comparatively few in number—the most noticeable being those on molasses and sugar, malt and pearled barley, rye, pineapples, dressed or undressed meat, iron and steel-wire rope, and tubes and pipes.¹

One of the most important manifestations of the new policy was, as already indicated, the treatment of the tariff numbers relating to wool and woollen goods, which had played so conspicuous a part in previous tariff controversies. The duties on raw wool were abolished; on woollen and worsted yarns rates of 30 and 40 per cent. *ad valorem* were substituted for the McKinley rates of $27\frac{1}{2}$ to $38\frac{1}{2}$

¹ *Return respecting the Customs Tariff of the United States* (C. 7579 of 1894, issued by the Board of Trade), pp. 70-79.

cents a pound + 35 or 40 per cent. *ad valorem*; the rates of duty on blankets ranged from 25 to 35 per cent. instead of 30 to 40 per cent. + a specific duty varying from $16\frac{1}{2}$ to $38\frac{1}{2}$ cents a pound; and simple rates of 40 and 50 per cent. *ad valorem* on dress goods took the place of the same *ad valorem* rates combined with specific rates varying from 7 to 44 cents per pound. In all these, as in the case of other woollen manufactures, the abolition of the specific portions of the duties followed naturally upon the abolition of the duties on raw wool, for which they were intended to be compensatory; the manufacturers were caused some trouble by the change, but it cannot be said that they were treated unfairly. As regards other textiles, there were large reductions in the case of the cheapest kinds of cotton goods, and smaller ones in respect of the finer qualities; and here again the tariff was greatly simplified by the abolition of the mixed specific and *ad valorem* rates. There were small reductions also on silks and linens.

The President had intended that all raw materials should be admitted free, and had carried the House of Representatives with him; the Senate, however, could not be induced to go so far. The chief illustrations of this were furnished by iron ore and coal. The House of Representatives had abolished the duty on both of these commodities; the Senate was content to reduce the duty in each case from 75 cents to 40 cents a ton. Other commodities which the House of Representatives had placed on

the free list, but on which the Senate re-imposed duties, were nickel, mica and quicksilver, unmanufactured clays or earth, various chemicals (such as ammonia, borax, sulphur), molasses, raw or refined sugar, beef, mutton, pork, bacon, meats dressed, undressed, or preserved, lard, apples, eggs, and coke.¹ The duty on pig-iron was lowered from \$6.72 to \$4 a ton, on steel rails from \$13.44 to \$7.84 a ton, and even on tin plates from 2 $\frac{2}{5}$ cents to 1 $\frac{1}{5}$ cents per pound.

One other serious change was in the case of sugar. The clauses affecting that commodity in the McKinley Tariff had caused very considerable dissatisfaction: for one thing, the financial results had been somewhat unsatisfactory, and for another, it was widely believed that the duty on refined sugar and the bounties were largely in the interests of the Sugar Trust—one of the earliest of those organisations which now play so great a part in American industrial life. The Democrats now proposed to admit refined sugar as well as raw sugar free, and to abolish the bounty system, but the Senate made many amendments admittedly in the interest, and under the influence, of the Sugar Trust. An *ad valorem* duty of 40 per cent. was imposed on raw sugar; refined sugar was made subject to this rate with the addition of $\frac{1}{8}$ cent per lb., and the surtax on bounty-fed sugar, imported into the United States, was retained. The House of Representatives was unable to overrule

¹ *Return respecting the Customs Tariff of the United States*, pp. 68–9.

the Senate, and "on the whole, the refining monopoly, while it lost something, came out of the struggle victorious, and was left in little less secure control over the trade after the Act of 1894 than under the Act of 1890."¹

Altogether the new tariff brought relatively little change; none of the high hopes which the Democrats had formed after the Presidential election were realised.² The President himself was grievously disappointed; in order to save something of his policy, he allowed the Act to pass, but he would not give it his signature; it became law merely because he took no action in the time required by the Constitution. The weakness of the Democrats, the confusion in the party, the disruption caused by the silver question, the conflict between the President and the Senate, and the Treasury difficulties with which the Cleveland Administration failed to cope, brought about a reaction as sharp as that of 1890-2, and again placed the Protectionists in power. The Democrats had hoped to establish an income tax, to meet the deficiency resulting from the reduction of duties and to enable them to continue the removal of the customs restrictions, but the Supreme Court now reversed its decision

¹ Taussig, pp. 313-14.

² On the basis of the imports in the year ending June 30, 1893, the yield of the duties under the McKinley Tariff was estimated at 49·6 per cent. of the total value of all dutiable imports; the yield of the duties under the Wilson Tariff (as finally enacted) was estimated at 38·7 per cent. The reduction was not sufficient to diminish appreciably the protective character of the tariff.

of the Civil War period, and decided the income tax to be unconstitutional.

But at the election of 1896, the country was not concerned mainly with the question of Protection or Free Trade. The advocates of free silver had grown in force astonishingly, and had completely captured the Democratic party machine; in their election platform the Democrats declared for "the free and unlimited coinage of both silver and gold at the present legal ratio of 16 to 1, without waiting for the aid or consent of any other nation,"¹ and added that "until the money question is settled we are opposed to any agitation for further changes in our tariff laws, except such as are necessary to meet the deficit in revenue caused by the adverse decision of the Supreme Court on the income tax." To prevent all misconception as to their policy, the Democrats chose as their candidate the foremost platform representative of free silver, and the Populist party also gave him their support. The Republicans had intended to fight the election mainly on the tariff issue, and had therefore chosen McKinley as their representative. But they were compelled by force of circumstances to drop that question for the time, and to go to the electors chiefly as the opponents of the revolutionary monetary proposals of the Democrats. And there can be no question that this was the chief cause of their overwhelming victory; it is true that they

¹ A reference to the argument that this would be practicable only as the result of an international agreement.

had announced their intention to amend the tariff, but "the tariff gave way to the free coinage issue, and the election ultimately turned upon that almost exclusively."¹ The Democrats were broken up; large numbers of the party in the Eastern States either abstained from taking part in the election or voted for McKinley. The Republican candidate was elected by a very considerable majority, and the Republicans found themselves supreme in the House of Representatives, and masters of the Senate by a few votes. The new President could scarcely claim that the nation had given a definite judgment on the tariff problem, and, moreover, he owed his election in part to the votes of those Democrats who could not support the extreme views represented by his opponent. But nevertheless the President and his advisers made up their minds that they were justified in carrying out tariff changes immediately. The United States had passed through a period of marked commercial depression, originating in widespread financial difficulties there and elsewhere in 1893 and subsequent years, and the Treasury had to meet a large deficit. The facts that the crisis had commenced in 1893, while the McKinley Tariff was still in force, and that the deficit was largest in that year and had been growing smaller ever since,² had no weight with them; and the President now

¹ Stanwood, ii. p. 376.

² In the financial year 1893-4, the deficit was 70 million dollars; in 1894-5, 43 millions; in 1895-6, 25 millions; in 1896-7, 18 millions.

invited Congress to provide adequately for the wants of the Treasury, and suggested that the duties imposed for this purpose "should be so levied upon foreign products as to preserve the home market so far as possible to our own producers; to revive and increase manufactures; to relieve and encourage agriculture; to increase our domestic and foreign commerce; to aid and develop mining and building; and to render to labour in every field of useful occupation the liberal wages and adequate rewards to which skill and industry are justly entitled." The result was the so-called Dingley Act, which became law in July, 1897, after a rapid progress through both Houses of Congress. It imposed duties higher than under any preceding tariff.

The most important feature of the new tariff was the return to the duties on certain raw materials, especially wool. The import of that commodity had tripled between 1893 and 1896, and the supply of woollen manufactures from abroad had also doubled. It was therefore resolved to re-impose on clothing and combing wool the rates of the tariff of 1890, and on carpet wool graded duties higher than in any other period of United States tariff history. The manufacturers were strongly opposed to the change, but political considerations and the desire to do something to counteract the effect of the appeal made by the silver party to the farmers, prevailed with the Executive. Largely for the same reason, a duty

of 15 per cent. *ad valorem* was imposed on hides, which had been free since 1872; and the rates of 1890 on flax were also restored.

In regard to textiles, the restoration of the wool duty was followed inevitably by an increase of the protection given to woollen manufactures, and the old principle of a combination of specific compensating duties and *ad valorem* protective duties was again applied, with its great administrative complications and difficulties.¹ On the chief class of woollens imported the protective *ad valorem* rate was increased, so that it had advanced from 25 per cent. in 1875 to 55 per cent. in 1897. On cotton goods the rates of duty were somewhat lower than in 1890, but a good deal higher than in 1894, and here again the combined specific and *ad valorem* duties were adopted. The same complicated method was applied to silks and linens, with a marked increase in the amount of the duties. There were advances also in the case of china, earthenware, and glass, by a return to the rates of duty imposed in 1890. In the case of metals, there was little change so far as iron ore, pig-iron, steel rails, and copper were concerned; but the rates on certain manufactures of iron and steel, such as cutlery, and on lead and lead ore were restored to the points of the McKinley Tariff. The duty on tin-plate was

¹ For a comparative statement of the rates of duty on articles of each class, the quantity and value imported, and the customs yield under the Wilson and Dingley tariffs, see *Imports and Duties, 1894-1907* (House of Representatives Document No. 1504, 60th Congress, 2nd Session).

increased only slightly, from $1\frac{1}{5}$ cents to $1\frac{1}{2}$ cents. The duty on coal was raised from 40 cents to 67 cents a ton (which was 8 cents less than in 1890). In the sugar duties the *ad valorem* duty of 40 per cent. imposed by the Act of 1894 on raw sugar was now replaced by a specific duty of about double that amount; there was also an increase, in fact, on refined sugar, though the Sugar Trust did not secure anything like the advantage for which they had striven.

From the administrative point of view, the new tariff was even more complicated than its predecessors. The elaborate clause concerning knives, penknives, and razors in the McKinley Tariff has already been quoted;¹ the clause referring to the same commodities in the Act of 1897 will serve to show how the complication had increased:

“Penknives or pocketknives, clasp knives, pruning knives, and budding knives of all kinds, or parts thereof, and erasers or manicure knives, or parts thereof, wholly or partly manufactured, valued at not more than forty cents per dozen, forty per centum *ad valorem*; valued at more than forty cents per dozen and not exceeding fifty cents per dozen, one cent per piece and forty per centum *ad valorem*; valued at more than fifty cents per dozen and not exceeding one dollar and twenty-five cents per dozen, five cents per piece and forty per centum *ad valorem*; valued at more than one dollar and twenty-five cents per dozen and not exceeding three dollars per dozen, ten cents per piece and forty per centum *ad valorem*; valued at more than three dollars per dozen, twenty cents per piece and forty per centum *ad valorem*; *Provided*, That blades, handles, or other parts of either or any of the foregoing articles, imported in any other manner than assembled in finished knives or erasers, shall be subject to no less rate of duty than herein provided for penknives, pocketknives, clasp knives, pruning

¹ *Vide supra*, p. 270-1.

knives, manicure knives, and erasers valued at more than fifty cents and not more than one dollar and fifty cents per dozen. Razors and razor blades, finished or unfinished, valued at less than one dollar and fifty cents per dozen, fifty cents per dozen and fifteen per centum *ad valorem*; valued at one dollar and fifty cents per dozen and less than three dollars per dozen, one dollar per dozen and fifteen per centum *ad valorem*; valued at three dollars per dozen or more, one dollar and seventy-five cents per dozen and twenty per centum *ad valorem*. Scissors and shears, and blades for the same, finished or unfinished, valued at not more than fifty cents per dozen, fifteen cents per dozen and fifteen per centum *ad valorem*; valued at more than fifty cents and not more than one dollar and seventy-five cents per dozen, fifty cents per dozen and fifteen per centum *ad valorem*; valued at more than one dollar and seventy-five cents per dozen, seventy-five cents per dozen and twenty-five per centum *ad valorem*.¹

As another illustration, the duties on silk piece goods may be quoted. They are as follows:²

Silk piece goods :

| | Per lb. |
|--|---------|
| (1) Containing 20 per cent. or less in weight of silk, | |
| if in the gum - - - - - | \$0.50 |
| If dyed in the piece - - - - - | 0.60 |
| (2) Containing 20 to 30 per cent. in weight of silk, | |
| if in the gum - - - - - | 0.65 |
| If dyed in the piece - - - - - | 0.80 |
| (3) Containing 30 to 45 per cent. in weight of silk, | |
| if in the gum - - - - - | 0.90 |
| If dyed in the piece - - - - - | 1.10 |
| (4) Containing 30 per cent. or less in weight of silk, | |
| if dyed in the thread or yarn, black - - - - - | 0.75 |
| Other colour - - - - - | 0.90 |
| (5) Containing 30 to 45 per cent. in weight of silk, | |
| if dyed in the thread or yarn, black - - - - - | 1.10 |
| Other colour - - - - - | 1.30 |

The McKinley Tariff had inaugurated an elaborate policy of drawbacks, by a sweeping

¹ Quoted by Ford in *Political Science Quarterly*, vol. xiii., No. 2, pp. 284-5.

² Taussig, p. 339.

clause which provided that "where imported materials on which duties have been paid are used in the manufacture of articles manufactured or produced in the United States, there shall be allowed on the exportation of such articles a drawback equal in amount to the duties paid on the materials used, less 1 per cent. of such duties." The Dingley Tariff continued the system, but the conditions and regulations proved cumbersome and often difficult to comply with,¹ and the system admittedly hampers the manufacturers for export.

¹ S. N. D. North, in *Annals of the American Academy*, January, 1904, p. 7.

CHAPTER VIII

THE UNITED STATES AND RECIPROCITY — ECONOMIC PROGRESS OF THE UNITED STATES, 1890-1908.

It will have been noticed that hitherto little has been said of the international commercial relations of the United States, and no reference has been made to any treaties similar to those which have played so important a part in the commercial history of continental Europe during the last half-century. The explanation of this fact is that until quite recently the United States have stood almost altogether aloof from such a treaty system, and the slight attempts made from time to time to enter it have been ill-fated. It is true that various agreements made by the United States have contained the "most favoured nation" clause, but the effect of that provision is much more limited than in the treaties ordinarily made by European States, for it has been construed by American legists to apply merely to privileges voluntarily granted by the United States to a third country, and not to anything given in return for reciprocal advantages. That is to say, that if the United States, in return

for certain reductions of duty made by France in favour of American goods, should on their side lower the rates of duty on certain of their imports from France, they are not bound to extend the same reductions to the similar products of any third nation with whom they may have a treaty containing the "most favoured nation" clause.¹ It is unnecessary to point out that this interpretation practically destroys the value of the clause in question, since the privileges granted by the United States without return are not likely to be numerous or important; but it simplifies the making of reciprocity treaties, since it enables the Federal Government to consider simply the effect of the treaty on the trade between the two contracting countries, and thus to escape the complications which are apt to arise under the European method.

The earliest attempts at reciprocity were not very satisfactory; the proposal for a treaty with the German Zollverein in 1844 was rejected by the Senate, and it was not until ten years later that a commercial agreement of any kind was actually made. That was with Great Britain acting on behalf of Canada, and it remained in force for twelve years; it provided for the admission of a large number of agricultural products from either country into the other free of duty; it also gave certain fishing privileges to American seamen, and provided for mutual freedom of the transit trade. It seems to be generally agreed that on the whole

¹ Mayo-Smith and Seligman, pp. 34-5.

Canada profited rather more than the United States, at least in the latter part of the treaty period, and the United States had by 1866 become completely dissatisfied. One cause of this was certainly the fact that the Canadian provincial governments increased the duties on manufactured goods to make up for the financial losses sustained by them owing to the reductions on raw materials. In 1866, partly because of this, and partly for political reasons (notably the sympathy which Canada had shown with the Confederate States), the United States renounced the treaty. A number of other contemplated agreements with other countries failed of realisation. The negotiations with Hawaii in 1855 were abandoned; treaties prepared by the Executive with Mexico in 1859 and 1883, with Hawaii in 1867, and with Canada in 1874, were rejected by the Senate, and arrangements made in 1884 with Spain, for Cuba and Porto Rico, and with San Domingo were abandoned by the Executive. One treaty alone was made—with Hawaii in 1875, but the adoption of that in the United States was determined rather by political than economic consideration; it was a step on the road to annexation.

The first definite and general provision for reciprocity was made by the McKinley Act of 1890, at the instigation of Blaine, the Secretary of State, who had been the moving spirit in the summoning of the Pan-American Congress which met at Washington in October, 1889. Eighteen countries,

including the United States, were represented there, and considerable attention was given to the suggestions for an American Customs Union. It was agreed that a union for customs purposes on the lines of the German Zollverein was altogether impossible for many reasons — economic and political; and absolute free trade between the various countries was held to be, for the time, out of the question, since most of them were largely dependent on the customs duties for their State revenues. The committee which reported on the proposals could urge only the making of separate treaties with reciprocal reductions of duty. Even this report did not secure unanimous support; the representatives of four countries voted against it, and Chile and Argentina especially urged that so long as the United States insisted on the maintenance of their high protective duties reciprocity was impossible.

But Blaine was not altogether discouraged, and he thought that commercial agreements, which would extend the United States markets in South America, might be obtained in another way.¹ He put forward his idea when the McKinley Tariff was under discussion, and a clause in that Act, inserted in the Senate, provided that the President

¹ "I do not doubt that in many respects the Tariff Bill pending in the Senate is a just measure, and that most of its provisions are in accordance with the wise policy of Protection. But there is not a section or line in the entire Bill that will open the market for another bushel of wheat or another barrel of pork" (Blaine, in letter quoted by Stanwood, ii. 278).

should be authorised to impose certain duties on sugar, molasses, coffee, tea, and hides (which were duty free) coming from countries which levied on agricultural or other produce of the United States duties to an extent, in his judgment, "reciprocally unequal and unreasonable." Taussig has pointed out that this method offers decided economic advantages over that commonly pursued, namely, "the simple remission of duties to a favoured country, duties remaining on goods coming from countries not favoured. Such a remission is likely not to redound to the advantage of the domestic consumer. Unless the favoured country can easily supply the whole market, or other countries are quickly admitted to the lower duties, prices are not affected, and the foreign producer reaps the whole benefit of the remission."¹ Under this clause treaties were made with Brazil and a number of the Central American States—San Domingo, Salvador, Nicaragua, Honduras, Guatemala, with Spain for Cuba and Porto Rico, and with Great Britain for most of the West Indian Islands and British Guiana. In most of these cases the United States got a very considerable return for the mere promise to retain the enumerated articles on their free list. Thus Brazil admitted wheat, flour, pork, agricultural and mining machinery, coal, and railway material free, and reduced the duties on a number of other commodities. Cuba made thirty-nine classes of articles free, and gave

¹ Taussig, p. 279.

a reduction of 50 per cent. on seventeen classes and 25 per cent. on fourteen classes.¹ The fact that Germany and Austria-Hungary were largely interested in the export of sugar enabled the American Government to make terms with those countries also. Germany abandoned the prohibition, which had been in force for some years, of the importation of American meat, and gave the United States the benefit of the conventional tariff on agricultural products; from Austria-Hungary they secured "most favoured nation" treatment.²

These later arrangements did not continue long enough to enable any definite opinion to be formed as to their effect on trade, since the reimposition of the customs duties on sugar by the Wilson Tariff of 1894 practically destroyed the system, which was dependent on the general freedom of that commodity. Fresh provision for reciprocity was made by two clauses in the Dingley Act of 1897, but not on the lines of 1890. Under section 3 of the new Act, the President was authorised, in return for concessions by other countries, to reduce by a definite amount the duties on certain articles specified in the clause. The list was a curious one; it included only argols, brandies, champagne, and other sparkling wines, still wines, and vermouth, pictures and statuary. Section 4 provided further

¹ Osborne, p. 64.

² The penal duties provided for by the clause in the Act of 1890 were actually applied against Haiti, Venezuela and Colombia.

that the President might make treaties (which, however, needed the approval of Congress) with reductions on duties up to 20 per cent. on any or every article; but such treaties must be made within two years after the passing of the Act. This latter clause proved practically inoperative; some eleven treaties were negotiated under it, mainly affecting Central or South American States and the West Indies, but they all fell through owing to the impossibility of securing the approval of the Senate. Action under section 3 could be taken merely by Presidential proclamation without any necessity for Congressional sanction, and eight such treaties have been made—with France in 1898, with Germany,¹ Italy, and Portugal in 1900, and subsequently with Switzerland, Spain, Bulgaria and the Netherlands. In return for the very small concessions indicated above, the United States secured from France the minimum tariff rates on a large number of agricultural products, from Germany the full conventional tariff, from Italy low rates on machinery and some raw materials, and from Portugal “most favoured nation” treatment, with fixed rates for agricultural products and machinery generally. Similar concessions were obtained in the other cases. It is difficult, if not impossible, to estimate the results of these treaties and the very small list of articles on which reductions might be made by Presidential proclamation was a considerable obstacle to any large extension

¹ The German Treaty was renewed in 1907.

of the system. Finally, it should be stated that in November, 1907, an agreement was made between the United Kingdom and the United States, whereby in return for certain customs house facilities granted by the former in respect of commercial travellers' samples coming from the United States, the latter country extended to British works of art the lower rate of duty authorised by Section 3 of the Dingley Tariff Act.

The Dingley Tariff remained in force and unaltered for twelve years, and its long continuance was due to a combination of political and economic factors. During the whole of the period the Republican party was in power; at the Presidential election of 1900 the Spanish War, and the new foreign policy of the American commonwealth which resulted therefrom, were the most conspicuous questions before the electors; and the Democrats, whose uncertain attitude towards this problem was a source of weakness, were still further handicapped by their adherence to the silver policy which had caused them disaster four years earlier. At the election of 1904 they indeed shook themselves free of this incubus, or at least their candidate did so—it is doubtful how far in this respect he was fully representative of his party—but the personal popularity of Mr. Roosevelt, the general approval of his administration after the death in 1901 of Mr. McKinley, who had been re-elected the previous year, and the continued prosperity of the country, gave the Republicans an overwhelming

victory. Though the tariff question played a comparatively small part in these elections, the Republicans always made the maintenance of the existing protection (subject to some possible modifications as a result of reciprocity treaties) a cardinal point of policy; whilst, on the other hand, there were not wanting in this regard signs of disintegration among the Democrats, some of whom (particularly in the South, where industrial development was very marked) were becoming inclined to regard protection as a permanent system, and consequently to get what they could out of it for their own industrial interests.

On the economic side there was, after 1897, a natural reaction against the constant change which, by altering the whole tariff three times in eight years, had kept commerce and industry in a constant state of doubt and unrest. Moreover, by 1898 the effects of the general depression which had characterised the early years of the last decade of the nineteenth century had entirely passed away, and the United States had its full share of the world-wide commercial and industrial activity which characterised the last years of the old and the opening years of the new century. The expansion continued unchecked until the latter part of 1907, when, partly as the inevitable reaction after a period of almost violent activity, but mainly as the result of some financial disorders and a grave monetary crisis, there came a sudden and very acute depression. The table given on

ECONOMIC PROGRESS OF THE UNITED STATES, 1890-1908.

| | Annual Averages. | | | | 1905. | 1906. | 1907. | 1908. | | |
|---------------------------|------------------|-----------|------------|-----------|--------|--------|---------------|---|------------|-----------|
| | 1890-1894. | | 1895-1899. | | | | | | 1900-1904. | |
| | Millions. | Millions. | Millions. | Millions. | | | | | Millions. | Millions. |
| Population | 65.1 | 71.6 | 79.0 | 83.1 | 84.2 | 85.8 | 87.2 | Millions. 87.2 | | |
| Agriculture : | | | | | | | | | | |
| Production of wheat | 310.7 | 349.9 | 463.0 | 595.6 | 583.6 | 471.3 | 550.8 | Million Win- chester Bus. 550.8 | | |
| Production of maize | 1552.0 | 1891.6 | 2085.7 | 2538.1 | 2841.0 | 2537.3 | 2631.2 | 2631.2 | | |
| Production of cotton | 8.3 | 9.5 | 10.9 | 10.8 | 13.6 | 11.4 | 13.6 | Million Bales (500 lb. gross). 13.6 | | |
| Production of sugar— | | | | | | | | | | |
| (1) Cane | 457.7 | 638.8 | 589.3 | 784.0 | 766.1 | 544.3 | 773.3 | Million Lbs. 773.3 | | |
| (2) Beet | 19.3 | 71.6 | 324.6 | 484.3 | 625.8 | 967.2 | 927.3 | 927.3 | | |
| Production of rice | 152.5 | 147.6 | 421.5 | 378.0 | 496.0 | 520.5 | 608.0 | 608.0 | | |
| Industry : | | | | | | | | | | |
| Production of coal | 153.3 | 189.1 | 281.0 | 350.8 | 369.8 | 428.9 | 371.3 | Million Tons. 371.3 | | |
| Production of pig-iron | 8.1 | 10.6 | 16.4 | 23.0 | 25.3 | 25.8 | 15.9 | 15.9 | | |
| Production of crude steel | 4.3 | 7.6 | 13.4 | 20.0 | 23.4 | 23.4 | 14.0 | 14.0 | | |
| Production of tin plates | 66.9 | 545.8 | 930.3 | 1105.4 | 1293.7 | 1153.1 | Not available | Million Lbs. Not available | | |

pp. 298, 299,¹ illustrates the economic development of the United States from 1890 to 1908, and shows how sharp was the revulsion in the latter year.

But it was essentially a monetary crisis, and, though recovery is necessarily somewhat slow (it would appear to have been delayed in part by causes which were not primarily economic), there can be no doubt of its completeness.

One conspicuous feature of the industrial and commercial life of the United States must be mentioned here—the wide development of “trusts”—if only because the Democrats, since they have become inclined to avoid the direct issue in regard to the tariff, have turned to attack these powerful combinations and indirectly to assail the protective system which, they claim, by practically eliminating foreign competition, renders it easier for such organisations to secure a monopoly in the home market, and to exploit the consumer.² The combinations in question are the almost inevitable outcome of modern industrial and commercial conditions, such as the excess of competition and the economy of production on a large scale; they appear to a greater or less extent in all industrial countries;³ but it is open to doubt whether, even when the peculiar conditions which prevail in the

¹ Compiled from *British and Foreign Trade and Industry*, 1909, and the *Statistical Abstract of the United States*, 1908.

² Cf. Beardsley, “The Tariff and the Trusts,” in *Quarterly Journal of Economics*, May, 1901.

³ Cf., for example, Macrosty’s *Trust Movement in British Industry*.

United States are taken into account, the trusts would have attained their present proportions in that country had it not been for the restrictive effect of a tariff which is far higher than that of any other country.¹ The political use of this anti-trust agitation has, however, been to some extent weakened by the fact that some of the Republicans, including Mr. Roosevelt and, in a lesser degree, his successor, Mr. Taft, share this hostility to the trusts, but believe that their evil effects can be removed without tampering with the tariff. They claim that much of the astonishingly rapid progress of the United States in the last few years in manufactures² is due to the steady adherence to Protection, and they argue that that system does not necessarily, by giving the manufacturers a practical monopoly, tend to check improvements in the methods of production, but rather that it encourages them by offering the producers greater security and inviting them to

¹ There is a very extensive literature on Trusts in the United States. A large collection of facts is contained in Moody, *The Truth about the Trusts*, and detailed information about some of the better-known combinations in the *Report of the Commissioner of Corporations on the Beef Industry*, 1905; *Report of the Commissioner of Corporations on the Tobacco Industry*, Pt. I., 1909; Tarbell, *History of the Standard Oil Trust*; and Berglund, *The United States Steel Industry*. A good discussion of the trust problem will be found in Ripley (ed.), *Trusts, Pools, and Combinations*. A useful sketch of the attempts made to control the Trusts by legislation is contained in the *Denkschrift über das Kartellwesen: IV. Ausländisches Kartellrecht*, issued by the German Government (pp. 40-58 and 188-221).

² The Census estimate of the value of the manufactured products of the United States was 9,372 million dollars in 1890 and 13,014 millions in 1900.

the conquest of the home market.¹ And the Americans can claim with justice that they show no signs of any enervating influence exercised upon them by Protection; by the foundation of Schools of Commerce their Universities preceded the British Universities in their response to new national needs; in the conduct of business their manufacturers have shown extraordinary energy, ability and enterprise; and the policy of taking care of the home market and concentrating attention upon that, in the assurance that foreign trade will then take care of itself, would seem to have met with a large measure of success.²

¹ "In fact, history shows that either result may ensue. It would seem, for instance, that in France, under the system of absolute prohibition against competing imports which prevailed throughout the first half of this century—in fact, up to the great commercial treaty of 1860—not a few manufacturers failed to make use of proved and familiar processes, and were inferior to British rivals. On the other hand, there were industries in France itself which had reached out into foreign markets, thus giving conclusive proof of not being behind the times. In the United States it would doubtless be possible to find examples of the former sort: a benumbing influence has sometimes been felt. But these are exceptions. As a rule, if American manufacturers have been unable to meet foreign competition, it has not been because of inert routine. . . . In the United States the Free Trader is shown by economic history to be in the wrong on this particular point: if protected industries have continued to need protection, as so often they have, the explanation is not to be found in the retention of antiquated processes. So far as the question of economic method is concerned, here again it is clear no abstract reasoning can suffice: the history of each people and the facts of each case must be investigated, and generalisation from *a priori* reasoning must be shunned" (Taussig, in "Iron Industry in the United States," in the *Quarterly Journal of Economics*, August, 1900, pp. 496-7).

² In recent years, however, much energy has been expended on the promotion of foreign trade, with the active assistance of the Government through a vigorous Consular Service and Special Inquiry Agents.

CHAPTER IX

THE TARIFF OF 1909

By the time that the Presidential election of November, 1908, drew near, it was apparent that there was a growing dissatisfaction with the tariff of 1897. The causes of this dissatisfaction were of two different kinds: on the one hand there was the increasing feeling among those interested in the maintenance of high protection that, owing to its hasty construction, the changes in industrial conditions and the elaboration of foreign tariffs, the Dingley Tariff had become technically imperfect, and there was a desire to secure a better basis for reciprocity; and, on the other hand, there was a belief, steadily gaining ground, that the increased power of the large industrial combinations, the rise in prices and consequent advance of the cost of living, were in some appreciable measure connected with the tariff. The Government itself was actuated by the necessity of providing more revenue, though it was apparent that little of this could be obtained by a revision of the tariff.

Consequently the tariff question played a very important part at the elections. The Democrats,